FIRST MID ILLINOIS BANCSHARES INC
Form 10-K
March 03, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____________ to ______________

Commission file number: 0-13368

FIRST MID-ILLINOIS BANCSHARES, INC.
(Exact name of Registrant as specified in its charter)

Delaware	37-1103704
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1515 Charleston Avenue, Mattoon, Illinois	61938
(Address of Principal Executive Offices)	(Zip Code)

(217) 234-7454
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
NONE

Securities registered pursuant to Section 12(g) of the Act:
Common stock, par value $4.00 per share,
and related Common Stock Purchase Rights
(Title of class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. [ ] Yes [X] No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. [ ] Yes [X] No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). [ ] Yes [X] No

The aggregate market value of the outstanding common stock, other than shares held by persons who may be deemed affiliates of the Registrant, as of the last business day of the Registrant’s most recently completed second fiscal quarter was approximately $66,949,466. Determination of stock ownership by non-affiliates was made solely for the purpose of responding to this requirement and the Registrant is not bound by this determination for any other purpose.

As of March 3, 2011, 6,077,444 shares of the Registrant’s common stock, $4.00 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Into Form 10-K Part:
Portions of the Proxy Statement for 2011 Annual Meeting of Shareholders to be held on April 27, 2011	III

First Mid-Illinois Bancshares, Inc.
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PART I

ITEM 1.BUSINESS

Company and Subsidiaries

First Mid-Illinois Bancshares, Inc. (the “Company”) is a financial holding company. The Company is engaged in the business of banking through its wholly owned subsidiary, First Mid-Illinois Bank & Trust, N.A. (“First Mid Bank”). The Company provides data processing services to affiliates through another wholly owned subsidiary, Mid-Illinois Data Services, Inc. (“MIDS”). The Company offers insurance products and services to customers through its wholly owned subsidiary, The Checkley Agency, Inc. doing business as First Mid Insurance Group (“First Mid Insurance”). The Company also wholly owns two statutory business trusts, First Mid-Illinois Statutory Trust I (“Trust I”), and First Mid-Illinois Statutory Trust II (“Trust II”), both unconsolidated subsidiaries of the Company.

The Company, a Delaware corporation, was incorporated on September 8, 1981, and pursuant to the approval of the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) became the holding company owning all of the outstanding stock of First National Bank, Mattoon (“First National”) on June 1, 1982. First National changed its name to First Mid-Illinois Bank & Trust, N.A. in 1992. The Company acquired all of the outstanding stock of a number of community banks or thrift institutions on the following dates, and subsequently combined their operations with those of the Company:

- Mattoon Bank, Mattoon on April 2, 1984
- State Bank of Sullivan on April 1, 1985
- Cumberland County National Bank in Neoga on December 31, 1985
- First National Bank and Trust Company of Douglas County on December 31, 1986
- Charleston Community Bank on December 30, 1987
- Heartland Federal Savings and Loan Association on July 1, 1992
- Downstate Bancshares, Inc. on October 4, 1994
- American Bank of Illinois on April 20, 2001
- Peoples State Bank of Mansfield on May 1, 2006

In 1997, First Mid Bank acquired the Charleston, Illinois branch location and the customer base of First of America Bank and in 1999 acquired the Monticello, Taylorville and DeLand branch offices and deposit base of Bank One Illinois, N.A.

First Mid Bank also opened a de novo branch in Decatur, Illinois and a banking center in the Student Union of Eastern Illinois University in Charleston, Illinois (2000); de novo branches in Champaign, Illinois and Maryville, Illinois (2002), and a de novo branch in Highland, Illinois (2005).

In 2002, the Company acquired all of the outstanding stock of Checkley, an insurance agency located in Mattoon.

In 2009, the Company opened de novo branches in Decatur and Champaign.

On September 10, 2010, the Company acquired 10 Illinois branches (the “Branches”) from First Bank, a Missouri state chartered bank, located in Bartonville, Bloomington, Galesburg, Knoxville, Peoria and Quincy, Illinois.

Employees

The Company, MIDS, First Mid Insurance and First Mid Bank, collectively, employed 419 people on a full-time equivalent basis as of December 31, 2010. The Company places a high priority on staff development, which involves extensive training, including customer service training. New employees are selected on the basis of both technical skills and customer service capabilities. None of the employees are covered by a collective bargaining agreement with the Company. The Company offers a variety of employee benefits.

Business Lines

The Company has chosen to operate in three primary lines of business—community banking and wealth management through First Mid Bank and insurance brokerage through First Mid Insurance. Of these, the community banking line contributes approximately 90% of the Company's total revenues and profits. Within the community banking line, the Company serves commercial, retail and agricultural customers with a broad array of deposit and loan related products. The wealth management line provides estate planning, investment and farm management services for individuals and employee benefit services for business enterprises. The insurance brokerage line provides commercial lines insurance to businesses as well as homeowner, automobile and other types of personal lines insurance to individuals.

All three lines emphasize a "hands on" approach to service so that products and services can be tailored to fit the specific needs of existing and potential customers. Management believes that by emphasizing this personalized approach, the Company can, to a degree, diminish the trend towards homogeneous financial services, thereby differentiating the Company from competitors and allowing for slightly higher operating margins in each of the three lines.

Business Strategies

Strategy for Operations and Risk Management
Operationally, the Company centralizes many administrative and clerical tasks within its home office location in Mattoon, Illinois. This allows branches to maintain customer focus, helps assure compliance with banking regulations, keeps fixed administrative costs at as low a level as is practicable, and better manages the various forms of risk inherent in this business. This approach also makes use of technology in day-to-day banking activities thereby reducing the potential for human error. While the Company does not employ every new technology that is introduced, it does attempt to be near the leading edge with respect to operational technology.

The Company has a comprehensive set of operational policies and procedures that have been developed over time to address risk. These policies are intended to be as close as possible to “best practices” of the financial services industry and are subjected to continual review by management and the Board of Directors. The Company’s internal audit function incorporates procedures to determine compliance with these policies.

In the business of banking, credit risk is an important risk as losses from uncollectible loans can significantly diminish capital, earnings and shareholder value. In order to address this risk, the lending function of First Mid Bank receives significant attention from executive management and the Board of Directors. An important element of credit risk management is the quality, experience and training of the loan officers of First Mid Bank. The Company has invested, and will continue to invest, significant resources to ensure the quality, experience and training of First Mid Bank’s loan officers in order to keep credit losses at a minimum. In addition to the human element of credit risk management, the Company’s loan policies address the additional aspects of credit risk. Most lending personnel have signature authority that allows them to lend up to a certain amount based on their own judgment as to the creditworthiness of a borrower. The amount of the signature authority is based on the lending officers’ experience and training. The Senior Loan Committee, consisting of the most experienced lenders within the organization, must approve all underwriting decisions in excess of $1.5 million. The Board of Directors must approve all underwriting decisions in excess of $2 million.

While the underlying nature of lending will result in some amount of loan losses, First Mid Bank’s loan loss experience has been good with average net charge offs amounting to $1.6 million (.23% of average loans) over the past five years. Nonperforming loans were $10.4 million (1.3% of total loans) at December 31, 2010. These percentages have historically compared well with peer financial institutions and continue to do so today.

Interest rate and liquidity risk are two other forms of risk embedded in the business of financial intermediation. The Company’s Asset Liability Management Committee, consisting of experienced individuals who monitor all aspects of interest rates and maturities of interest earning assets and interest paying liabilities, manages these risks. The underlying objectives of interest rate and liquidity risk management are to shelter the Company’s net interest margin from changes in interest rates while maintaining adequate liquidity reserves to meet unanticipated funding demands. The Company uses financial modeling technology as a tool, employing a variety of “what if” scenarios to properly plan its activities. Despite the tools and methods used to monitor this risk, a sustained unfavorable interest rate environment will lead to some amount of compression in the net interest margin. During 2010, the Company’s net interest margin increased to 3.51% from 3.40% in 2009. This was the result of a decrease in borrowing and deposit rates that was greater than the decrease in interest-earning asset rates.

Strategy for Growth
The Company believes that growth of its revenue stream and of its customer base is vital to the goal of increasing the value of its shareholders’ investment. Management attempts to grow in two primary ways:

• by organic growth through adding new customers and selling more products and services to existing customers; and

• by acquisitions.

Virtually all of the Company's customer-contact personnel, in each of its business lines, are engaged in organic growth efforts to one degree or another. These personnel are trained to engage in needs-based selling whereby they make an attempt to match its products and services with the particular financial needs of individual customers and prospective customers. Most senior officers of the organization are required to attend monthly sales meetings where they report on their business development efforts and results. Executive management uses these meetings as an educational and risk management opportunity as well. Cross-selling opportunities are encouraged between the business lines.

Within the community banking line, the Company has focused on growing business operating and real estate loans. Total commercial real estate loans have increased from $206 million at December 31, 2006 to $301 million at December 31, 2010 primarily due to loans acquired in the branch acquisition completed during the third quarter of 2010. Approximately 66% of the Company's total revenues are derived from lending activities. The Company has also focused on growing the commercial and retail deposit base through growth in checking, money markets and customer repurchase agreement balances. The wealth management line has focused its growth efforts on estate planning, investment and farm management services for individuals and employee benefit services for businesses. The insurance brokerage line has focused on increasing property and casualty insurance for businesses and personal lines insurance to individuals.

Growth through acquisitions has been an integral part of the Company's strategy for an extended period of time. When reviewing acquisition possibilities, the Company focuses on those organizations where there is a cultural fit with its existing operations and where there is a strong likelihood of adding to shareholder value. Most past acquisitions have been cash-based transactions. While the Company expects to continue this trend in the future, it would consider a stock-based acquisition if the strategic and financial metrics were compelling. The Company viewed the third quarter 2010 branch acquisitions as an unusual opportunity to acquire selected assets, add to its deposit base and expand its geographical reach. Most acquisitions have been smaller, reflecting the inherent risks accompanying acquisitions and the preference for cash financing rather than use of the Company's common stock.

This overall growth strategy has been to grow the customer base without significantly increasing the shareholder base. This requires a certain amount of financial leverage and the Company monitors its capital base carefully to satisfy all regulatory requirements while maintaining flexibility. The Company has maintained a Dividend Reinvestment Plan as well as various forms of equity compensation for directors and key managers. It has also maintained an ongoing share buy back program both as a service to shareholders and a means of maintaining optimal levels of capital.

In 2009, the Company issued and sold Series B Preferred Stock to certain investors and in 2011, the Company issued and sold Series C Preferred Stock to certain investors. The Company also uses various forms of long-term debt to augment its capital when appropriate.

Markets and Competition

The Company has active competition in all areas in which First Mid Bank presently does business. First Mid Bank competes for commercial and individual deposits, loans, and trust business with many east central Illinois banks, savings and loan associations, and credit unions. The principal methods of competition in the banking and financial services industry are quality of services to customers, ease of access to facilities, and pricing of services, including interest rates paid on deposits, interest rates charged on loans, and fees charged for fiduciary and other banking services.

First Mid Bank operates facilities in the Illinois counties of Adams, Bond, Champaign, Christian, Coles, Cumberland, Dewitt, Douglas, Effingham, Fulton, Knox, Macon, Madison, McClean, Moultrie, Peoria and Piatt. Each facility primarily serves the community in which it is located. First Mid Bank serves twenty-five different communities with thirty-eight separate locations in the towns of Altamont, Arcola, Bartonville, Bloomington, Champaign, Charleston, Decatur, Effingham, Galesburg, Highland, Knoxville, Mansfield, Mahomet, Maryville, Mattoon, Monticello, Neoga, Peoria, Pocahontas, Quincy, Sullivan, Taylorville, Tuscola, Urbana, and Weldon Illinois. Within the areas of service, there are numerous competing financial institutions and financial services companies.

Website

The Company maintains a website at www.firstmid.com. All periodic and current reports of the Company and amendments to these reports filed with the Securities and Exchange Commission (“SEC”) can be accessed, free of charge, through this website as soon as reasonably practicable after these materials are filed with the SEC.

SUPERVISION AND REGULATION

General

Financial institutions, financial services companies, and their holding companies are extensively regulated under federal and state law. As a result, the growth and earnings performance of the Company can be affected not only by management decisions and general economic conditions, but also by the requirements of applicable state and federal statutes and regulations and the policies of various governmental regulatory authorities including, but not limited to, the Office of the Comptroller of the Currency (the “OCC”), the Federal Reserve Board, the Federal Deposit Insurance Corporation (the “FDIC”), the Internal Revenue Service and state taxing authorities. Any change in applicable laws, regulations or regulatory policies may have material effects on the business, operations and prospects of the Company and First Mid Bank. The Company is unable to predict the nature or extent of the effects that fiscal or monetary policies, economic controls or new federal or state legislation may have on its business and earnings in the future.

Federal and state laws and regulations generally applicable to financial institutions and financial services companies, such as the Company and its subsidiaries, regulate, among other things, the scope of business, investments, reserves against deposits, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, mergers, consolidations and dividends. The system of supervision and regulation applicable to the Company and its subsidiaries establishes a comprehensive framework for their respective operations and is intended primarily for the protection of the FDIC’s deposit insurance fund and the depositors, rather than the stockholders, of financial institutions.

The following references to material statutes and regulations affecting the Company and its subsidiaries are brief summaries thereof and do not purport to be complete, and are qualified in their entirety by reference to such statutes and regulations. Any change in applicable law or regulations may have a material effect on the business of the

Company and its subsidiaries.

Financial Modernization Legislation

The 1999 Gramm-Leach-Bliley Act (the “GLB Act”) significantly changed financial services regulation by expanding permissible non-banking activities of bank holding companies and removing certain barriers to affiliations among banks, insurance companies, securities firms and other financial services entities. These activities and affiliations can be structured through a holding company structure or, in the case of many of the activities, through a financial subsidiary of a bank. The GLB Act also established a system of federal and state regulation based on functional regulation, meaning that primary regulatory oversight for a particular activity generally resides with the federal or state regulator having the greatest expertise in the area. Banking is supervised by banking regulators, insurance by state insurance regulators and securities activities by the SEC and state securities regulators. The GLB Act also requires the disclosure of agreements reached with community groups that relate to the Community Reinvestment Act, and contains various other provisions designed to improve the delivery of financial services to consumers while maintaining an appropriate level of safety in the financial services industry.

The GLB Act repealed the anti-affiliation provisions of the Glass-Steagall Act and revises the Bank Holding Company Act of 1956 (the “BHCA”) to permit qualifying holding companies, called “financial holding companies,” to engage in, or to affiliate with companies engaged in, a full range of financial activities, including banking, insurance activities (including insurance portfolio investing), securities activities, merchant banking and additional activities that are “financial in nature,” incidental to financial activities or, in certain circumstances, complementary to financial activities. A bank holding company’s subsidiary banks must be “well-capitalized” and “well-managed” and have at least a “satisfactory” Community Reinvestment Act rating for the bank holding company to elect and maintain its status as a financial holding company.

A significant component of the GLB Act’s focus on functional regulation relates to the application of federal securities laws and SEC oversight of some bank securities activities previously exempt from broker-dealer registration. Among other things, the GLB Act amended the definitions of “broker” and “dealer” under the Securities Exchange Act of 1934 to remove the blanket exemption for banks. Under the GLB Act, banks may conduct securities activities without broker-dealer registration only if the activities fall within a set of activity-based exemptions designed to allow banks to conduct only those activities traditionally considered to be primarily banking or trust activities. Securities activities outside these exemptions, as a practical matter, need to be conducted by registered broker-dealer affiliate. The GLB Act also amended the Investment Advisers Act of 1940 to require the registration of banks that act as investment advisers for mutual funds. The Company believes that it has taken the necessary actions to comply with these requirements of the GLB Act and the regulations adopted under them.

Anti-Terrorism Legislation

The USA PATRIOT Act of 2001 included the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 (the “IMLAFA”). The IMLAFA contains anti-money laundering measures affecting insured depository institutions, broker-dealers, and certain other financial institutions. The IMLAFA requires U.S. financial institutions to adopt policies and procedures to combat money laundering and grants the Secretary of the Treasury broad authority to establish regulations and to impose requirements and restrictions on financial institutions’ operations. The Company has established policies and procedures for compliance with the IMLAFA and the related regulations. The Company has designated an officer solely responsible for ensuring compliance with existing regulations and monitoring changes to the regulations as they occur.

Emergency Economic Stabilization Act of 2008

In response to unprecedented financial market turmoil, the Emergency Economic Stabilization Act of 2008 ("EESA") was enacted on October 3, 2008. EESA authorizes the U.S. Treasury Department to provide up to $700 billion in funding for the financial services industry. The Treasury's authority under TARP expired October 3, 2010. The Company decided to not participate in the TARP Capital Purchase Program.

On October 14, 2008, the FDIC announced the Temporary Liquidity Guarantee Program (TLGP). The FDIC stated that the purpose of these actions is to strengthen confidence and encourage liquidity in the banking system by guaranteeing newly issued senior unsecured debt of 31 days or greater, of banks, thrifts, and certain holding companies, and by providing full FDIC insurance coverage for all non-interest bearing transaction accounts, regardless of dollar amount. Inclusion in the program was voluntary. Institutions participating in the senior unsecured debt portion of the program are assessed fees on a sliding scale, depending on length of maturity for debt actually issued.

First Mid Bank elected to participate in both parts of the TLGP, the Transaction Account Guarantee (TAG) Program and the Debt Guarantee Program, although it issued no debt under that now-terminated program. The FDIC’s TAG Program, provided, without charge to depositors, a full guarantee on all non-interest bearing transaction accounts held by any depositor, regardless of dollar amount, through December 31, 2010. Participation in the Transaction Account Guarantee Program cost the Company 15 basis points annually on the amount of the deposits during 2010 and cost 10 basis points annually during 2009.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) was signed into law on July 21, 2010. Generally, the Act is effective the day after it was signed into law, but different effective dates apply to specific sections of the law. Uncertainty remains as to the ultimate impact of the Act, which could have a material adverse impact either on the financial services industry as a whole, or on the Company’s business, results of operations and financial condition. The Act, among other things:

- Directs the Federal Reserve to issue rules which are expected to limit debit-card interchange fees.

- After a three-year phase-in period which begins January 1, 2013, existing trust preferred securities for holding companies with consolidated assets greater than $15 billion and all new issuances of trust preferred securities are removed as a permitted component of a holding company’s Tier 1 capital. Trust preferred securities outstanding as of May 19, 2010 that were issued by bank holding companies with total consolidated assets of less than $15 billion, such as First Mid, will continue to count as Tier 1 capital.

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Provides for an increase in the FDIC assessment for depository institutions with assets of $10 billion or more, increases in the minimum reserve ratio for the deposit insurance fund from 1.15% to 1.35% (however, the FDIC is to offset the effect of this increase for holding companies with total consolidated assets of less than $10 billion, such as First Mid) and changes in the basis for determining FDIC premiums from deposits to assets.

- Creates a new Consumer Financial Protection Bureau that will have rulemaking authority for a wide range of consumer protection laws that would apply to all banks and certain non-bank financial institutions and would have broad powers to supervise and enforce consumer protection laws.

- Provides for new disclosure and other requirements relating to executive compensation and corporate governance.

- Changes standards for Federal preemption of state laws related to federally chartered institutions and their subsidiaries.

- Provides mortgage reform provisions including (i) a customer's ability to repay, (ii) restricting variable-rate lending by requiring the ability to repay to be determined for variable-rate loans by using the maximum rate that will apply during the first five years of a variable-rate loan term, and (iii) making more loans subject to provisions for higher cost loans, new disclosures.

- Creates a financial stability oversight council that will recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity.

- Permanently increases the deposit insurance coverage to $250 thousand and allows depository institutions to pay interest on checking accounts.

- Requires publicly-traded bank holding companies with assets of $10 billion or more to establish a risk committee responsible for enterprise-wide risk management practices.

The Company

General. As a registered bank holding company under the BHCA that has elected to become a financial holding company under the GLB Act, the Company is subject to regulation by the Federal Reserve Board. In accordance with Federal Reserve Board policy, the Company is expected to act as a source of financial strength to First Mid Bank and to commit resources to support First Mid Bank in circumstances where the Company might not do so absent such policy. The Company is subject to inspection, examination, and supervision by the Federal Reserve Board.

Activities. As a financial holding company, the Company may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature or incidental or complementary to activities that are financial in nature. A bank holding company that is not also a financial holding company is limited to engaging in banking and such other activities as determined by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

No Federal Reserve Board approval is required for the Company to acquire a company (other than a bank holding company, bank, or savings association) engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board. However, the Company generally must give the Federal Reserve Board after-the-fact notice of these activities. Prior Federal Reserve Board approval is required before the Company may acquire beneficial ownership or control of more than 5% of the voting shares or substantially all of the assets of a bank holding company, bank, or savings association.

If any subsidiary bank of the Company ceases to be “well-capitalized” or “well-managed” under applicable regulatory standards, the Federal Reserve Board may, among other actions, order the Company to divest its depository institution. Alternatively, the Company may elect to conform its activities to those permissible for a bank holding company that is not also a financial holding company.

If any subsidiary bank of the Company receives a rating under the Community Reinvestment Act of less than “satisfactory”, the Company will be prohibited, until the rating is raised to “satisfactory” or better, from engaging in new activities or acquiring companies other than bank holding companies, banks, or savings associations.

Capital Requirements. Bank holding companies are required to maintain minimum levels of capital in accordance with Federal Reserve Board capital adequacy guidelines. The Federal Reserve Board’s capital guidelines establish the following minimum regulatory capital requirements for bank holding companies: a risk-based requirement expressed as a percentage of total risk-weighted assets, and a leverage requirement expressed as a percentage of total assets. The risk-based requirement consists of a minimum ratio of total capital to total risk-weighted assets of 8%, at least one-half of which must be Tier 1 capital. The leverage requirement consists of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly rated companies, with minimum requirements of at least 4% for all others. For purposes of these capital standards, Tier 1 capital consists primarily of permanent stockholders’ equity, which includes the Series B 9% Non-Cumulative Perpetual Convertible Preferred Stock issued by the Company in 2009 and the Series C 8% Non-Cumulative Perpetual Convertible Preferred Stock subsequently issued by the Company in 2011, less intangible assets (other than certain mortgage servicing rights and purchased credit card relationships), and total capital means Tier 1 capital plus certain other debt and equity instruments which do not qualify as Tier 1 capital, limited amounts of unrealized gains on equity securities and a portion of the Company’s allowance for loan and lease losses.

The risk-based and leverage standards described above are minimum requirements, and higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve Board’s capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (i.e., Tier 1 capital less all intangible assets), well above the minimum levels.

In December 2007, the U.S. bank regulatory agencies adopted final rules that require large, internationally active financial services organizations to use the most sophisticated and complex methodology for calculating capital requirements reflected in the New Basel Capital Accord, developed by the Basel Committee on Banking Supervision. These rules became operational in April 2008, but are mandatory only for “core banks,” i.e., banks with consolidated total assets of $250 billion or more.

In September 2010, the Basel Committee on Banking Supervision proposed higher global minimum capital standards, including a minimum Tier 1 common capital ratio and additional capital and liquidity requirements, with rules expected to be implemented between 2013 and 2019. Adoption in the U.S. is expected to occur over a similar timeframe, but the final form of the U.S. rules is uncertain. While uncertainty exists in both the final form of the guidance and whether or not the Company will be required to adopt the guidelines, the Company is closely monitoring the development of the guidance.

As of December 31, 2010, the Company had regulatory capital, calculated on a consolidated basis, in excess of the Federal Reserve Board’s minimum requirements, and its capital ratios exceeded those required for categorization as well-capitalized under the capital adequacy guidelines established by bank regulatory agencies with a total risk-based capital ratio of 12.84%, a Tier 1 risk-based ratio of 11.71% and a leverage ratio of 7.42%.

Control Acquisitions. The Change in Bank Control Act prohibits a person or group of person from acquiring "control" of a bank holding company unless the Federal Reserve Board has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve Board, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, such as the Company, would, under the circumstances set forth in the presumption, constitute acquisition of control of the Company.

In addition, any company is required to obtain the approval of the Federal Reserve Board under the BHCA before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more of the outstanding common of the Company, or otherwise obtaining control of a "controlling influence" over the Company or First Mid Bank.

Interstate Banking and Branching. The Dodd-Frank Act expands the authority of banks to engage in interstate branching. The act allows a state or national bank to open a de novo branch in another state if the law of the state where the branch is to be located would permit a state bank chartered by that state to open the branch.

Privacy and Security. The GLB Act establishes a minimum federal standard of financial privacy by, among other provisions, requiring banks to adopt and disclose privacy policies with respect to consumer information and setting forth certain rules with respect to the disclosure to third parties of consumer information. The Company has adopted and disseminated its privacy policies pursuant to the GLB Act. Regulations adopted under the GLB Act set standards for protecting the security, confidentiality and integrity of customer information, and require notice to regulators, and in some cases, to customers, in the event of security breaches. A number of states have adopted their own statutes requiring notification of security breaches. In addition, the GLB Act requires the disclosure of agreements reached with community groups that relate to the CRA, and contains various other provisions designed to improve the delivery of financial services to consumers while maintaining an appropriate level of safety in the financial services industry.

First Mid Bank

General. First Mid Bank is a national bank, chartered under the National Bank Act. The FDIC insures the deposit accounts of First Mid Bank. As a national bank, First Mid Bank is a member of the Federal Reserve System and is subject to the examination, supervision, reporting and enforcement requirements of the OCC, as the primary federal regulator of national banks, and the FDIC, as administrator of the deposit insurance fund.

Deposit Insurance. As an FDIC-insured institution, First Mid Bank is required to pay deposit insurance premium assessments to the FDIC.
On October 3, 2008, the FDIC temporarily increased the standard maximum deposit insurance amount (SMDIA) from $100,000 to $250,000 per depositor. On May 20, 2009, the Helping Families Save Their Homes Act extended the temporary increase in the SMDIA through December 31, 2013. On July 21, 2010, The Dodd-Frank Act permanently raised the SMDIA to $250,000. The Company expensed $95,000, $49,000 and $0 for this program during 2010, 2009 and 2008, respectively.

On February 27, 2009, the FDIC adopted a final rule modifying the risk-based assessment system and setting initial base assessment rates beginning April 1, 2009, at 12 to 45 basis points and, due to extraordinary circumstances, extended the period of the restoration plan to increase the deposit insurance fund to seven years. Also on February 27, 2009, the FDIC issued final rules on changes to the risk-based assessment system. The final rules both increase base assessment rates and incorporate additional assessments for excess reliance on brokered deposits and FHLB advances. The new rates increased the range of annual assessment rates from 5 to 7 basis points to 7 to 24 basis points. This new assessment took effect April 1, 2009. The Company expensed $1.31 million, $1.26 million and $47,000 for this assessment during 2010, 2009 and 2008, respectively.

Also on February 27, 2009, the FDIC adopted an interim rule to impose a 20 basis point emergency special assessment payable September 30, 2009 based on the second quarter 2009 assessment base, to help shore up the Deposit Insurance Fund ("DIF"). This assessment equates to a one-time cost of $200,000 per $100 million in assessment base. The interim rule also allows the Board to impose possible additional special assessments of up to 10 basis points thereafter to maintain public confidence in the DIF. Subsequently, the FDIC's Treasury borrowing authority increased from $30 billion to $100 billion, allowing the agency to cut the planned special assessment from 20 to 10 basis points. On May 22, 2009, the FDIC adopted a final rule which established a special assessment of five basis points on each FDIC-insured depository institution's assets, minus its Tier 1 capital, as of September 30, 2009. The assessment was capped at 10 basis points of an institution's domestic deposits so that no institution would pay an amount higher than it would have under the interim rule. The Company expensed $522,000 in 2009 for this special assessment. There were no special assessments during 2010 or 2008.

In addition to its insurance assessment, each insured bank was subject to quarterly debt service assessments in connection with bonds issued by a government corporation that financed the federal savings and loan bailout. The Company expensed $99,000, $112,000 and $111,000 during 2010, 2009 and 2008, respectively, for this assessment.

On September 29, 2009, the FDIC Board proposed a Deposit Insurance Fund restoration plan that required banks to prepay, on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. Under the plan—which applies to all banks except those with liquidity problems—banks were assessed through 2010 according to the risk-based premium schedule adopted in 2009. Beginning January 1, 2011, the base rate increases by 3 basis points. The Company recorded a prepaid expense asset of $4,855,000 as of December 31, 2009 as a result of this plan. This asset is being amortized to non-interest expense over three years. The balance of this asset was $3,247,000 as of December 31, 2010.

Subsequently, on February 7, 2011, the FDIC Board adopted a final rule, which redefines the deposit insurance assessment base as average consolidated total assets minus average tangible equity; makes generally conforming changes to the unsecured debt and brokered deposit adjustments to assessment rates; creates a depository institution debt adjustment; eliminates the secured liability adjustment; and adopts a new assessment rate schedule effective April 1, 2011, and, in lieu of dividends, other rate schedules when the reserve ratio reaches certain levels.

OCC Assessments. All national banks are required to pay supervisory fees to the OCC to fund the operations of the OCC. The amount of such supervisory fees is based upon each institution's total assets, including consolidated subsidiaries, as reported to the OCC. During the year ended December 31, 2010, First Mid Bank paid supervisory fees to the OCC totaling $244,000.

Capital Requirements. The OCC has established the following minimum capital standards for national banks, such as First Mid Bank: a leverage requirement consisting of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly-rated banks with minimum requirements of at least 4% for all others, and a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8%, at least one-half of which must be Tier 1 capital. For purposes of these capital standards, Tier 1 capital and total capital consists of substantially the same components as Tier 1 capital and total capital under the Federal Reserve Board's capital guidelines for bank holding companies (See "The Company—Capital Requirements").

The capital requirements described above are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual institutions. For example, the regulations of the OCC provide that additional capital may be required to take adequate account of, among other things, interest rate risk or the risks posed by concentrations of credit, nontraditional activities or securities trading activities.

During the year ended December 31, 2010, First Mid Bank was not required by the OCC to increase its capital to an amount in excess of the minimum regulatory requirements, and its capital ratios exceeded those required for categorization as well-capitalized under the capital adequacy guidelines established by bank regulatory agencies with a total risk-based capital ratio of 12.32%, a Tier 1 risk-based ratio of 11.19% and a leverage ratio of 7.07%.

Prompt Corrective Action. Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "well-capitalized," "adequately-capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: requiring the submission of a capital restoration plan; placing limits on asset growth and restrictions on activities; requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; restricting transactions with affiliates; restricting the interest rate the institution may pay on deposits; ordering a new election of directors of the institution; requiring that senior executive officers or directors be dismissed; prohibiting the institution from accepting deposits from correspondent banks; requiring the institution to divest certain subsidiaries; prohibiting the payment of principal or interest on subordinated debt; and in the most severe cases, appointing a conservator or receiver for the institution.

Dividends. The National Bank Act imposes limitations on the amount of dividends that may be paid by a national bank, such as First Mid Bank. Generally, a national bank may pay dividends out of its undivided profits, in such amounts and at such times as the bank's board of directors deems prudent. Without prior OCC approval, however, a national bank may not pay dividends in any calendar year which, in the aggregate, exceed the bank's year-to-date net income plus the bank's adjusted retained net income for the two preceding years.

The payment of dividends by any financial institution or its holding company is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, First Mid Bank exceeded its minimum capital requirements under applicable guidelines as of December 31, 2010. As of December 31, 2010, approximately $16.4 million was available to be paid as dividends to the Company by First Mid Bank. Notwithstanding the availability of funds for dividends, however, the OCC may prohibit the payment of any dividends by First Mid Bank if the OCC determines that such payment would constitute an unsafe or unsound practice.

Affiliate and Insider Transactions. First Mid Bank is subject to certain restrictions under federal law, including Regulation W of the Federal Reserve Board, on extensions of credit to the Company and its subsidiaries, on investments in the stock or other securities of the Company and its subsidiaries and the acceptance of the stock or other securities of the Company or its subsidiaries as collateral for loans. Certain limitations and reporting requirements are also placed on extensions of credit by First Mid Bank to its directors and officers, to directors and officers of the Company and its subsidiaries, to principal stockholders of the Company, and to "related interests" of such directors, officers and principal stockholders.

First Mid Bank is subject to restrictions under federal law that limits certain transactions with the Company, including loans, other extensions of credit, investments or asset purchases. Such transactions by a banking subsidiary with any one affiliate are limited in amount to 10% of the bank's capital and surplus and, with all affiliates together, to an aggregate of 20% of the bank's capital and surplus. Furthermore, such loans and extensions of credit, as well as certain other transactions, are required to be secured in specified amounts. These and certain other transactions, including any payment of money to the Company, must be on terms and conditions that are or in good faith would be offered to nonaffiliated companies.

In addition, federal law and regulations may affect the terms upon which any person becoming a director or officer of the Company or one of its subsidiaries or a principal stockholder of the Company may obtain credit from banks with which First Mid Bank maintains a correspondent relationship.

Safety and Soundness Standards. The federal banking agencies have adopted guidelines that establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings. In general, the guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. The preamble to the guidelines states that the agencies expect to require a compliance plan from an institution whose failure to meet one or more of the guidelines are of such severity that it could threaten the safety and soundness of the institution. Failure to submit an acceptable plan, or failure to comply with a plan that has been accepted by the appropriate federal regulator, would constitute grounds for further enforcement action.

Community Reinvestment Act. First Mid Bank is subject to the Community Reinvestment Act (CRA). The CRA and the regulations issued thereunder are intended to encourage banks to help meet the credit needs of their service areas, including low and moderate income neighborhoods, consistent with the safe and sound operations of the banks. These regulations also provide for regulatory assessment of a bank's record in meeting the needs of its service area when considering applications to establish branches, merger applications and applications to acquire the assets and assume the liabilities of another bank. The Financial Institutions Reform, Recovery and Enforcement Act of 1989 requires federal banking agencies to make public a rating of a bank's performance under the CRA. In the case of a bank holding company, the CRA performance record of its bank subsidiaries is reviewed by federal banking agencies in connection with the filing of an application to acquire ownership or control of shares or assets of a bank or thrift or to merge with any other bank holding company. An unsatisfactory record can substantially delay or block the transaction. First Mid Bank received a satisfactory CRA rating from its regulator in its most recent CRA examination.

Consumer Laws and Regulations. In addition to the laws and regulations discussed above, First Mid Bank is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. While the list set forth herein is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Fair Credit Reporting Act, the Fair and Accurate Credit Transactions Act and the Real Estate Settlement Procedures Act, among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans to or marketing to or engaging in other types of transactions with such customers. Failure to comply with these laws and regulations could lead to substantial penalties, operating restrictions and reputational damage to the financial institution.

Supplemental Item – Executive Officers of the Registrant

The executive officers of the Company are elected annually by the Company's board of directors and are identified below.

Name (Age)	Position With Company
William S. Rowland (64)	Chairman of the Board of Directors, President and Chief Executive Officer
Michael L. Taylor (42)	Executive Vice President and Chief Financial Officer
John W. Hedges (63)	Executive Vice President
Laurel G. Allenbaugh (50)	Executive Vice President
Eric S. McRae (45)	Executive Vice President
Charles A. LeFebvre (41)	Executive Vice President
Kelly A. Downs (43)	Senior Vice President
Christopher L. Slabach (48)	Senior Vice President

William S. Rowland, age 64, has been Chairman of the Board of Directors, President and Chief Executive Officer of the Company since May 1999. He served as Executive Vice President of the Company from 1997 to 1999 and as Treasurer and Chief Financial Officer from 1989 to 1999. He also serves as Chairman of the Board of Directors and Chief Executive Officer of First Mid Bank.

Michael L. Taylor, age 42, has been the Executive Vice President and Chief Financial Officer of the Company since May 2007. He served as Vice President and Chief Financial Officer from May 2000 to May 2007. He was with AMCORE Bank in Rockford, Illinois from 1996 to 2000.

John W. Hedges, age 63, has been Executive Vice President of the Company and the President of First Mid Bank since September 1999. He was with National City Bank in Decatur, Illinois from 1976 to 1999.

Laurel G. Allenbaugh, age 50, has been Executive Vice President of Operations since April 2008. She served as Vice President of Operations from February 2000 to April 2008. She served as Controller of the Company and First Mid Bank from 1990 to February 2000 and has been President of MIDS since 1998.

Eric S. McRae, age 45, has been Executive Vice President of the Company and Executive Vice President, Chief Credit Officer of First Mid Bank since December 2008. He served as President of the Decatur region from 2001 to December 2008.

Charles A. LeFebvre, age 41, has been Executive Vice President of the Company since 2008 and Executive Vice President of the Trust and Wealth Management Division of First Mid Bank since 2007. He was an attorney with the law firm of Thomas, Mamer & Haughey from 2001 to 2007.

Kelly A. Downs, age 43, has been Senior Vice President of Human Resources since April 2008, has served as Vice President of Human Resources from 2001 to April 2008, and has been with the Company since 1991.

Christopher L. Slabach, age 48, has been Senior Vice President of the Company since 2007 and Senior Vice President, Risk Management of First Mid Bank since 2008. He served as Vice President, Audit from 1998-2007.

ITEM 1A. RISK FACTORS

Various risks and uncertainties, some of which are difficult to predict and beyond the Company's control, could negatively impact the Company. As a financial institution, the Company is exposed to interest rate risk, liquidity risk, credit risk, operational risk, risks from economic or market conditions, and general business risks among others. Adverse experience with these or other risks could have a material impact on the Company's financial condition and results of operations, as well as the value of its common stock.

Difficult economic conditions and market disruption have adversely impacted the banking industry and financial markets generally and may continue to significantly affect the business, financial condition, or results of operations of the Company. The Company's success depends, to a certain extent, upon economic and political conditions, local and national, as well as governmental monetary policies. Conditions such as inflation, recession, unemployment, changes in interest rates, money supply and other factors beyond the Company's control may adversely affect its asset quality, deposit levels and loan demand and, therefore, its earnings.

Dramatic declines in the housing market beginning in the latter half of 2007, with falling home prices and increasing foreclosures, unemployment and underemployment, have negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by some financial institutions. The resulting write-downs to assets of financial institutions have caused many financial institutions to merge with other institutions and, in some cases, to seek government assistance or bankruptcy protection.

The capital and credit markets, including the fixed income markets, have been experiencing volatility and disruption for over two years. In some cases, the markets have produced downward pressure on stock prices and credit capacity for certain issuers without regard to those issuers' financial strength.

Many lenders and institutional investors have reduced and, in some cases, ceased to provide funding to borrowers, including to other financial institutions because of concern about the stability of the financial markets and the strength of counterparties. It is difficult to predict how long these economic conditions will exist, and which of our markets, products or other businesses will ultimately be affected. Accordingly, the resulting lack of available credit, lack of confidence in the financial sector, decreased consumer confidence, increased volatility in the financial markets and reduced business activity could materially and adversely affect the Company's business, financial condition and results of operations.

As a result of the challenges presented by economic conditions, the Company has faced the following risks in connection with these events:

- Inability of borrowers to make timely repayments of their loans, or decreases in value of real estate collateral securing the payment of such loans resulting in significant credit losses, which results in increased delinquencies, foreclosures and customer bankruptcies, any of which could have a material adverse effect on the Company's operating results.

- Increased regulation of the banking industry, including heightened legal standards and regulatory requirements. Compliance with such regulation increases costs and may limit the Company's ability to pursue business opportunities.

- Further disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations, may result in an inability to borrow on favorable terms or at all from other financial institutions.

The Company’s profitability depends significantly on economic conditions in the geographic region in which it operates. A large percentage of the Company’s loans are to individuals and businesses in Illinois, consequently, any decline in the economy of this market area could have a materially adverse effect on the Company’s financial condition and results of operations.

Decline in the strength and stability of other financial institutions may adversely affect the Company’s business. The actions and commercial soundness of other financial institutions could affect the Company’s ability to engage in routine funding transactions. Financial services institutions are interrelated as a result of clearing, counterparty or other relationships. The Company has exposure to different counterparties, and executes transactions with various counterparties in the financial industry. Recent defaults by financial services institutions, and even rumors or questions about one or more financial services institutions or the financial services industry in general, have led to market-wide liquidity problems and could lead to losses or defaults by the Company or by other institutions. Many of these transactions expose the Company to credit risk in the event of default of its counterparty or client. Any such losses could materially and adversely affect the Company’s results of operations.

Changes in interest rates may negatively affect our earnings. Changes in market interest rates and prices may adversely affect the Company’s financial condition or results of operations. The Company’s net interest income, its largest source of revenue, is highly dependent on achieving a positive spread between the interest earned on loans and investments and the interest paid on deposits and borrowings. Changes in interest rates could negatively impact the Company’s ability to attract deposits, make loans, and achieve a positive spread resulting in compression of the net interest margin.

The Company may not have sufficient cash or access to cash to satisfy current and future financial obligations, including demands for loans and deposit withdrawals, funding operating costs, payment of preferred stock dividends and for other corporate purposes. This type of liquidity risk arises whenever the maturities of financial instruments included in assets and liabilities differ. The Company’s liquidity can be affected by a variety of factors, including general economic conditions, market disruption, operational problems affecting third parties or the Company, unfavorable pricing, competition, the Company’s credit rating and regulatory restrictions. (See “Liquidity” herein for management’s actions to mitigate this risk.)

If the Company were unable to borrow funds through access to capital markets, it may not be able to meet the cash flow requirements of its depositors, creditors, and borrowers, or the operating cash needed to fund corporate expansion and other corporate activities. Starting in the middle of 2007, there has been significant turmoil and volatility in worldwide financial markets which, although there has been some improvement, is still ongoing. These conditions have resulted in a disruption in the liquidity of financial markets, and could directly impact the Company to the extent it needs to access capital markets to raise funds to support its business and overall liquidity position. This situation could affect the cost of such funds or the Company's ability to raise such funds. If the Company were unable to access any of these funding sources when needed, it might be unable to meet customers' needs, which could adversely impact its financial condition, results of operations, cash flows, and level of regulatory-qualifying capital. For further discussion, see the "Liquidity" section.

Loan customers or other counter-parties may not be able to perform their contractual obligations resulting in a negative impact on the Company's earnings. Overall economic conditions affecting businesses and consumers, including the current difficult economic conditions and market disruptions, could impact the Company's credit losses. In addition, real estate valuations could also impact the Company's credit losses as the Company maintains $588 million in loans secured by commercial, agricultural, and residential real estate. A significant decline in real estate values could have a negative effect on the Company's financial condition and results of operations. In addition, the Company's total loan balances by industry exceeded 25% of total risk-based capital for each of four industries as of December 31, 2010. A listing of these industries is contained in under "Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Loans" herein. A significant change in one of these industries such as a significant decline in agricultural crop prices, could adversely impact the Company's credit losses.

Continued deterioration in the real estate market could lead to additional losses, which could have a material adverse effect on the business, financial condition and results of operations or the Company. Commercial and commercial real estate loans generally involve higher credit risks than residential real estate and consumer loans. Because payments on loans secured by commercial real estate or equipment are often dependent upon the successful operation and management of the underlying assets, repayment of such loans may be influenced to a great extent by conditions in the market or the economy. Continued increases in commercial and consumer delinquency levels or continued declines in real estate market values would require increased net charge-offs and increases in the allowance for loan and lease losses, which could have a material adverse effect on our business, financial condition and results of operations and prospects.

The allowance for loan losses may prove inadequate or be negatively affected by credit risk exposures. The Company's business depends on the creditworthiness of its customers. Management periodically reviews the allowance for loan and lease losses for adequacy considering economic conditions and trends, collateral values and credit quality indicators, including past charge-off experience and levels of past due loans and nonperforming assets. There is no certainty that the allowance for loan losses will be adequate over time to cover credit losses in the portfolio because of unanticipated adverse changes in the economy, market conditions or events adversely affecting specific customers, industries or markets. If the credit quality of the customer base materially decreases, if the risk profile of a market, industry or group of customers changes materially, or if the allowance for loan losses is not adequate, the Company's business, financial condition, liquidity, capital, and results of operations could be materially adversely affected.

Declines in the value of securities held in the investment portfolio may negatively affect the Company's earnings. The value of an investment in the portfolio could decrease due to changes in market factors. The market value of certain investment securities is volatile and future declines or other-than-temporary impairments could materially adversely affect the Company's future earnings and regulatory capital. Continued volatility in the market value of certain of the investment securities, whether caused by changes in market perceptions of credit risk, as reflected in the expected market yield of the security, or actual defaults in the portfolio could result in significant fluctuations in the value of the securities. This could have a material adverse impact on the Company's accumulated other comprehensive loss and shareholders' equity depending upon the direction of the fluctuations.

Furthermore, future downgrades or defaults in these securities could result in future classifications as other-than-temporarily impaired. The Company has invested in trust preferred securities issued by financial institutions and insurance companies, corporate securities of financial institutions, and stock in the Federal Home Loan Bank of Chicago and Federal Reserve Bank of Chicago. Deterioration of the financial stability of the underlying financial institutions for these investments could result in other-than-temporary impairment charges to the Company and could have a material impact on future earnings. For further discussion of the Company's investments, see Note 4 – "Investment Securities."

If the Company's stock price declines from levels at December 31, 2010, management will evaluate the goodwill balances for impairment, and if the values of the businesses have declined, the Company could recognize an impairment charge for its goodwill. Management performed an annual goodwill impairment assessment as of September 30, 2010. Based on these analyses, management concluded that the fair value of the Company's reporting units exceeded the fair value of its assets and liabilities and, therefore, goodwill was not considered impaired. It is possible that management's assumptions and conclusions regarding the valuation of the Company's lines of business could change adversely, which could result in the recognition of impairment for goodwill, which could have a material effect on the Company's financial position and future results of operations.

The Series B and Series C preferred stock impacts net income available to common stockholders and earnings per share. As long as shares of the Series B and Series C preferred stock are outstanding, no dividends may be paid on the Company's common stock unless all dividends on the Series B and Series C preferred stock have been paid in full. The dividends declared on the Series B and Series C preferred stock reduce the net income available to common stockholders and earnings per share.

Holders of the Series B and Series C preferred stock have rights that are senior to those of common stockholders. The Series B and Series C preferred stock is senior to the shares of common stock and holders of the Series B and Series C preferred stock have certain rights and preferences that are senior to holders of common stock. The Series B and Series C preferred stock will rank senior to the common stock and all other equity securities designated as ranking junior to the Series B and Series C preferred stock. So long as any shares of the Series B and Series C preferred stock remain outstanding, unless all accrued and unpaid dividends for all prior dividend periods have been paid or are contemporaneously declared and paid in full, no dividend shall be paid or declared on common stock or other junior stock, other than a dividend payable solely in common stock.

The Company also may not purchase, redeem or otherwise acquire for consideration any shares of its common stock or other junior stock unless it has paid in full all accrued dividends on the Series B and Series C preferred stock for all prior dividend periods. The Series B and Series C preferred stock is entitled to a liquidation preference over shares of common stock in the event of the Company's liquidation, dissolution or winding up.

The Company may issue additional common stock or other equity securities in the future which could dilute the ownership interest of existing stockholders. In order to maintain capital at desired or regulatory-required levels or to replace existing capital, the Company may be required to issue additional shares of common stock, or securities convertible into, exchangeable for or representing rights to acquire shares of common stock. The Company may sell these shares at prices below the current market price of shares, and the sale of these shares may significantly dilute stockholder ownership. The Company could also issue additional shares in connection with acquisitions of other financial institutions.

Human error, inadequate or failed internal processes and systems, and external events may have adverse effects on the Company. Operational risk includes compliance or legal risk, which is the risk of loss from violations of, or noncompliance with, laws, rules, regulations, prescribed practices, or ethical standards. Operational risk also encompasses transaction risk, which includes losses from fraud, error, the inability to deliver products or services, and loss or theft of information. Losses resulting from operational risk could take the form of explicit charges, increased operational costs, harm to the Company’s reputation or forgone opportunities. Any of these could potentially have a material adverse effect on the Company’s financial condition and results of operations.

The Company is exposed to various business risks that could have a negative effect on the financial performance of the Company. These risks include: changes in customer behavior, changes in competition, new litigation or changes to existing litigation, claims and assessments, environmental liabilities, real or threatened acts of war or terrorist activity, adverse weather, changes in accounting standards, legislative or regulatory changes, taxing authority interpretations, and an inability on the Company’s part to retain and attract skilled employees.

In addition to these risks identified by the Company, investments in the Company’s common stock involve risk. The market price of the Company’s common stock may fluctuate significantly in response to a number of factors including: volatility of stock market prices and volumes, rumors or erroneous information, changes in market valuations of similar companies, changes in securities analysts’ estimates of financial performance, and variations in quarterly or annual operating results.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The headquarters of the Company is located at 1520 Charleston Avenue, Mattoon Illinois. The building is owned by the Bank. This facility is also used by MIDS for its data processing and back room operations for the Company and the Bank.

The main office of the Bank is located at 1515 Charleston Avenue, Mattoon, Illinois and is also owned by the Bank. The Bank also conducts business through numerous facilities, owned and leased, located in seventeen counties throughout Illinois. Of the thirty-six other banking offices operated by the Bank, twenty-three are owned and thirteen are leased from non-affiliated third parties.

In addition, the Company owns a facility located at 1500 Wabash Avenue, Mattoon, Illinois, which is used by the loan and deposit services departments of First Mid Bank and First Mid Insurance leases a facility located at 100 Lerna Road South, Mattoon, Illinois.

None of the properties owned by the Corporation are subject to any major encumbrances. The Company believes these facilities are suitable and adequate to operate its banking and related business. The net investment of the Company and subsidiaries in real estate and equipment at December 31, 2010 was $28,544,000.

ITEM 3. LEGAL PROCEEDINGS

Since First Mid Bank acts as a depository of funds, it is named from time to time as a defendant in lawsuits (such as garnishment proceedings) involving claims to the ownership of funds in particular accounts. Management believes that all such litigation as well as other pending legal proceedings, in which the Company is involved, constitute ordinary routine litigation incidental to the business of the Company and that such litigation will not materially adversely affect the Company's consolidated financial condition or results of operations.

PART II

ITEM 4. [RESERVED]

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER OF PURCHASES OF EQUITY SECURITIES

The Company's common stock was held by approximately 595 shareholders of record as of December 31, 2010 and is included for quotation on the over-the-counter electronic bulletin board.

The following table shows the high and low bid prices per share of the Company's common stock for the indicated periods. These quotations represent inter-dealer prices without retail mark-ups, mark-downs or commissions and may not necessarily represent actual transactions.

Quarter	High	Low
2010		
4th	$18.50	$16.85
3rd	$19.00	$17.50
2nd	$19.90	$16.50
1st	$17.50	$16.50
2009		
4th	$19.90	$16.55
3rd	$19.90	$17.10
2nd	$20.00	$16.00
1st	$22.20	$18.00

The following table sets forth the cash dividends per share on the Company's common stock for the last two years.

Date Declared	Date Paid	Dividend Per Share
12-21-2010	1-06-2011	$.190
4-28-2010	6-07-2010	$.190
12-15-2009	1-07-2010	$.190
4-29-2009	6-08-2009	$.190

The Company's shareholders are entitled to receive such dividends as are declared by the Board of Directors, which considers payment of dividends semi-annually. The ability of the Company to pay dividends, as well as fund its operations, is dependent upon receipt of dividends from First Mid Bank. Regulatory authorities limit the amount of dividends that can be paid by First Mid Bank without prior approval from such authorities. For further discussion of First Mid Bank's dividend restrictions, see Item1 – "Business" – "First Mid Bank" – "Dividends" and Note 18 – "Dividend

Restrictions” herein. The Board of Directors of the Company declared cash dividends semi-annually during the two years ended December 31, 2010.

The following table summarizes share repurchase activity for the fourth quarter of 2010:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs at End of Period
October 1, 2010 – October 31, 2010	0	$0.00	0	$ 2,459,000
November 1, 2010 – November 30, 2010	74,854	$18.38	74,854	$ 1,083,000
December 1, 2010 – December 31, 2010	9,219	$17.98	9,219	$ 917,000
Total	84,073	$18.33	84,073	$ 917,000

Since August 5, 1998, the Board of Directors has approved repurchase programs pursuant to which the Company may repurchase a total of approximately $56.7 million of the Company's common stock. The repurchase programs approved by the Board of Directors are as follows:

- On August 5, 1998, repurchases of up to 3%, or $2 million, of the Company's common stock.
- In March 2000, repurchases up to an additional 5%, or $4.2 million of the Company's common stock.
- In September 2001, repurchases of $3 million of additional shares of the Company's common stock.
- In August 2002, repurchases of $5 million of additional shares of the Company's common stock.
- In September 2003, repurchases of $10 million of additional shares of the Company's common stock.
- On April 27, 2004, repurchases of $5 million of additional shares of the Company's common stock.
- On August 23, 2005, repurchases of $5 million of additional shares of the Company's common stock.
- On August 22, 2006, repurchases of $5 million of additional shares of the Company's common stock.
- On February 27, 2007, repurchases of $5 million of additional shares of the Company's common stock.
- On November 13, 2007, repurchases of $5 million of additional shares of the Company's common stock.
- On December 16, 2008, repurchases of $2.5 million of additional shares of the Company's common stock.
- On May 26, 2009, repurchases of $5 million of additional shares of the Company's common stock.

Subsequently, on February 22, 2011, the Company's Board of Directors authorized the repurchase of $5 million of additional shares of the Company's common stock bringing the total amount of common stock that the Company is authorized to repurchase on that date to approximately $5,918,000.

ITEM 6. SELECTED FINANCIAL DATA

The following sets forth a five-year comparison of selected financial data (dollars in thousands, except per share data).

	2010	2009	2008	2007	2006
Summary of Operations					
Interest income	$50,883	$51,409	$57,066	$59,931	$55,556
Interest expense	10,756	15,837	21,344	28,429	24,712
Net interest income	40,127	35,572	35,722	31,502	30,844
Provision for loan losses	3,737	3,594	3,559	862	760
Other income	13,820	13,455	15,264	14,661	13,380
Other expense	36,927	33,212	31,460	30,055	28,423
Income before income taxes	13,283	12,221	15,967	15,246	15,041
Income tax expense	4,522	4,007	5,443	5,087	5,032
Net income	8,761	8,214	10,524	10,159	10,009
Dividends on preferred shares	2,240	1,821	-	-	-
Net income available to common stockholders	$6,521	$6,393	$10,524	$10,159	$10,009
Per Common Share Data (1)					
Basic earnings per share	$1.07	$1.04	$1.69	$1.60	$1.54
Diluted earnings per share	1.07	1.04	1.67	1.57	1.51
Dividends per share	.38	.38	.38	.38	.35
Book value per common share	14.46	14.23	13.50	12.82	11.78
Capital Ratios					
Total capital to risk-weighted assets	12.84 %	15.76 %	11.99 %	11.13 %	10.91 %
Tier 1 capital to risk-weighted assets	11.71 %	14.57 %	11.02 %	10.32 %	10.10 %
Tier 1 capital to average assets	7.42 %	10.63 %	8.41 %	7.89 %	7.56 %
Financial Ratios					
Net interest margin	3.51 %	3.40 %	3.73 %	3.43 %	3.51 %
Return on average assets	.72 %	.74 %	1.03 %	1.03 %	1.07 %
Return on average common equity	7.20 %	9.56 %	12.87 %	13.06 %	13.31 %
Dividend on common shares payout ratio	35.51 %	36.54 %	22.49 %	23.75 %	22.51 %
Average equity to average assets	9.44 %	9.59 %	8.00 %	7.90 %	8.01 %
Allowance for loan losses as a percent of total loans	1.29 %	1.35 %	1.02 %	0.82 %	0.81 %
Year End Balances					
Total assets	$1,468,245	$1,095,155	$1,049,700	$1,016,338	$980,559
Net loans, including loans held for sale	794,188	691,288	734,351	742,043	717,692
Total deposits	1,212,710	840,410	806,354	770,583	770,595
Total equity	112,265	111,221	82,778	80,452	75,786
Average Balances					
Total assets	$1,219,353	$1,108,669	$1,022,734	$985,230	$938,784
Net loans, including loans held for sale	708,367	692,961	733,681	722,672	686,069
Total deposits	972,811	744,043	795,786	771,561	737,344
Total equity	115,151	106,295	81,793	77,787	75,174

(1) All share and per share data have been restated to reflect the 3-for-2 stock split effective June 29, 2007.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is intended to provide a better understanding of the consolidated financial condition and results of operations of the Company and its subsidiaries for the years ended December 31, 2010, 2009 and 2008. This discussion and analysis should be read in conjunction with the consolidated financial statements, related notes and selected financial data appearing elsewhere in this report.

Forward-Looking Statements

This report may contain certain forward-looking statements, such as discussions of the Company's pricing and fee trends, credit quality and outlook, liquidity, new business results, expansion plans, anticipated expenses and planned schedules. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1955. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or si expressions. Actual results could differ materially from the results indicated by these statements because the realization of those results is subject to many risks and uncertainties, including those described in Item 1A-"Risk Factors" and other sections of the Company's Annual Report on Form 10-K and the Company's other filings with the SEC, and changes in interest rates, general economic conditions and those in the Company's market area, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios and the valuation of the investment portfolio, the Company's success in raising capital, demand for loan products, deposit flows, competition, demand for financial services in the Company's market area and accounting principles, policies and guidelines. Furthermore, forward-looking statements speak only as of the date they are made. Except as required under the federal securities laws or the rules and regulations of the SEC, we do not undertake any obligation to update or review any forward-looking information, whether as a result of new information, future events or otherwise.

For the Years Ended December 31, 2010, 2009 and 2008

Overview

This overview of management's discussion and analysis highlights selected information in this document and may not contain all of the information that is important to you. For a more complete understanding of trends, events, commitments, uncertainties, liquidity, capital resources, and critical accounting estimates, you should carefully read this entire document. These have an impact on the Company's financial condition and results of operations.

Net income was $8.76 million, $8.21 million, and $10.52 million and diluted earnings per share were $1.07, $1.04, and $1.67 for the years ended December 31, 2010, 2009, and 2008, respectively. The increases in net income and earnings per share in 2010 was primarily the result of an increase in net interest income due to lower interest rates on deposit balances resulting in less interest expense for the year. The following table shows the Company's annualized performance ratios for the years ended December 31, 2010, 2009 and 2008:

	2010		2009		2008	
Return on average assets	.72	%	.74	%	1.03	%
Return on average common equity	7.20	%	9.56	%	12.87	%
Average common equity to average assets	9.44	%	9.59	%	8.00	%

Total assets at December 31, 2010, 2009, and 2008 were $1,468.2 million, $1,095.2 million, and $1,049.7 million, respectively. The increase in net assets during 2010 was due to the branch acquisition completed during the third quarter. Net loan balances increased to $794.2 million at December 31, 2010, from $691.3 million at December 31, 2009 and compared to $734.4 million at December 31, 2008. The increase in 2010 of $103 million or 14.9% was due to $133 million of loan balances acquired in the acquisition offset by a decline in the balances of loans secured by real estate. Total deposit balances increased to $1,212.7 million at December 31, 2010 from $840.4 million at December 31, 2009 and from $806.4 million at December 31, 2008. The increase in 2010 was primarily due to balances acquired in the acquisition of $337 million, as well as, increases in interest bearing transaction accounts and money market accounts offset by declines in consumer time deposits.

Net interest margin, defined as net interest income divided by average interest-earning assets, was 3.51% for 2010, 3.40% for 2009 and 3.73% for 2008. The increase in interest margin during 2010 was due to a greater decline in interest-earning liabilities rates compared to the decline in rates on interest-earning assets.

Net interest income increased to $40.1 million in 2010 from $35.6 million in 2009 and $35.7 million in 2008. The ability of the Company to continue to grow net interest income is largely dependent on management's ability to succeed in its overall business development efforts. Management expects these efforts to continue but does not intend to compromise credit quality and prudent management of the maturities of interest-earning assets and interest-paying liabilities in order to achieve growth.

Non-interest income increased to $13.8 million in 2010 compared to $13.5 million in 2009 and $15.3 million in 2008. The primary reasons for the increase of $.3 million or 2.7% from 2009 to 2010 were increases in ATM and debit fees, an increase in trust revenues and less other-than-temporary impairment charges on investment securities offset by no non-recurring gain such as occurred in 2009. The primary reasons for the decrease of $1.8 million or 11.9% from 2008 to 2009 were decreases in trust revenues and brokerage commissions and other-than-temporary impairment charges on investment securities offset by a $1 million gain on the sale of the Bank's merchant card servicing portfolio.

Non-interest expenses increased $3.7 million, to $36.9 million in 2010 compared to $33.2 million in 2009 and $31.5 million in 2008. The primary factor for the increase during 2010 was an additional expenses incurred as a result of the branch acquisition offset by the special FDIC assessment during 2009 that did not occur in 2010. The primary factor for the increase during 2009 was an increase in FDIC insurance assessments.

Following is a summary of the factors that contributed to the changes in net income (in thousands):

	2010 vs 2009	2009 vs 2008
Net interest income	$4,555	$(150)
Provision for loan losses	(143)	(35)
Other income, including securities transactions	365	(1,809)
Other expenses	(3,715)	(1,752)
Income taxes	(515)	1,436
Increase (decrease) in net income	$547	$(2,310)

Credit quality is an area of importance to the Company. Year-end total nonperforming loans were $10.4 million at December 31, 2010 compared to $12.7 million at December 31, 2009 and $7.3 million at December 31, 2008. The decrease in 2010 was primarily a result of loans that paid-off or became current during the year and loans transferred to other real estate owned during the year as a result of continued deterioration in economic conditions including increased unemployment, reduction in cash flow from increased vacancies in commercial properties, and declines in property values. Other real estate owned balances totaled $6.1 million at December 31, 2010 compared to $2.9 million at December 31, 2009. The Company's provision for loan losses was $3.7 million for 2010 compared to $3.6 million for 2009. At December 31, 2010, the composition of the loan portfolio remained similar to 2009. Loans secured by both commercial and residential real estate comprised 73% and 74% of the loan portfolio as of December 31, 2010 and 2009, respectively.

The Company also held investments in four trust preferred securities with a fair value of $581,000 and unrealized losses of $6 million at December 31, 2010 compared to a fair value of $3.2 million and unrealized losses of $4.6 million at December 31, 2009. During 2010, the Company recorded $1.4 million of other-than-temporary impairment charges for the credit portion of the unrealized losses of these securities compared to $1.8 million during 2009. These charges established a new, lower amortized cost basis for these securities and reduced non-interest income. See Note 4 – "Investment Securities" for additional details regarding these investments.

The Company's capital position remains strong and the Company has consistently maintained regulatory capital ratios above the "well-capitalized" standards. The Company's Tier 1 capital ratio to risk weighted assets ratio at December 31, 2010, 2009, and 2008 was 11.71%, 14.57%, and 11.02%, respectively. The Company's total capital to risk weighted assets ratio at December 31, 2010, 2009, and 2008 was 12.84%, 15.76%, and 11.99%, respectively. The decrease in 2010 was primarily the result of an increase in risk weighted assets that resulted from the branch acquisition. The increase in 2009 was primarily the result of an increase in retained earnings due to the Company's net income and the issuance of $24,635,000 of Series B 9% Non-Cumulative Perpetual Convertible Preferred Stock. (See "Preferred Stock" in Note 1 to consolidated financial statements for more detailed information.)

The Company's liquidity position remains sufficient to fund operations and meet the requirements of borrowers, depositors, and creditors. The Company maintains various sources of liquidity to fund its cash needs. See "Liquidity" herein for a full listing of its sources and anticipated significant contractual obligations.

The Company enters into financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include lines of credit, letters of credit and other commitments to extend credit. The total outstanding commitments at December 31, 2010, 2009 and 2008 were $169.3 million, $132.9 million and $152.9 million, respectively. See Note 19 – “Commitments and Contingent Liabilities” herein for further information.

Critical Accounting Policies and Use of Significant Estimates

The Company has established various accounting policies that govern the application of U.S. generally accepted accounting principles in the preparation of the Company’s financial statements. The significant accounting policies of the Company are described in the footnotes to the consolidated financial statements. Certain accounting policies involve significant judgments and assumptions by management that have a material impact on the carrying value of certain assets and liabilities; management considers such accounting policies to be critical accounting policies. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ from these judgments and assumptions, which could have a material impact on the carrying values of assets and liabilities and the results of operations of the Company.

Allowance for Loan Losses. The Company believes the allowance for loan losses is the critical accounting policy that requires the most significant judgments and assumptions used in the preparation of its consolidated financial statements. An estimate of potential losses inherent in the loan portfolio are determined and an allowance for those losses is established by considering factors including historical loss rates, expected cash flows and estimated collateral values. In assessing these factors, the Company use organizational history and experience with credit decisions and related outcomes. The allowance for loan losses represents the best estimate of losses inherent in the existing loan portfolio. The allowance for loan losses is increased by the provision for loan losses charged to expense and reduced by loans charged off, net of recoveries. The Company evaluates the allowance for loan losses quarterly. If the underlying assumptions later prove to be inaccurate based on subsequent loss evaluations, the allowance for loan losses is adjusted.

The Company estimates the appropriate level of allowance for loan losses by separately evaluating impaired and nonimpaired loans. A specific allowance is assigned to an impaired loan when expected cash flows or collateral do not justify the carrying amount of the loan. The methodology used to assign an allowance to a nonimpaired loan is more subjective. Generally, the allowance assigned to nonimpaired loans is determined by applying historical loss rates to existing loans with similar risk characteristics, adjusted for qualitative factors including the volume and severity of identified classified loans, changes in economic conditions, changes in credit policies or underwriting standards, and changes in the level of credit risk associated with specific industries and markets. Because the economic and business climate in any given industry or market, and its impact on any given borrower, can change rapidly, the risk profile of the loan portfolio is continually assessed and adjusted when appropriate. Notwithstanding these procedures, there still exists the possibility that the assessment could prove to be significantly incorrect and that an immediate adjustment to the allowance for loan losses would be required.

Other Real Estate Owned. Other real estate owned acquired through loan foreclosure is initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. The adjustment at the time of foreclosure is recorded through the allowance for loan losses. Due to the subjective nature of establishing the fair value when the asset is acquired, the actual fair value of the other real estate owned or foreclosed asset could differ from the original estimate. If it is determined that fair value temporarily declines subsequent to foreclosure, a valuation allowance is recorded through noninterest expense. Operating costs associated with the assets after acquisition are also recorded as noninterest expense. Gains and losses on the disposition of other real estate owned and foreclosed assets are netted and posted to other noninterest expense.

Investment in Debt and Equity Securities. The Company classifies its investments in debt and equity securities as either held-to-maturity or available-for-sale in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, “Accounting for Certain Investments in Debt and Equity Securities,” which was codified into ASC 320. Securities classified as held-to-maturity are recorded at cost or amortized cost. Available-for-sale securities are carried at fair value. Fair value calculations are based on quoted market prices when such prices are available. If quoted market prices are not available, estimates of fair value are computed using a variety of techniques, including extrapolation from the quoted prices of similar instruments or recent trades for thinly traded securities, fundamental analysis, or through obtaining purchase quotes. Due to the subjective nature of the valuation process, it is possible that the actual fair values of these investments could differ from the estimated amounts, thereby affecting the financial position, results of operations and cash flows of the Company. If the estimated value of investments is less than the cost or amortized cost, the Company evaluates whether an event or change in circumstances has occurred that may have a significant adverse effect on the fair value of the investment. If such an event or change has occurred and the Company determines that the impairment is other-than-temporary, a further determination is made as to the portion of impairment that is related to credit loss. The impairment of the investment that is related to the credit loss is expensed in the period in which the event or change occurred. The remainder of the impairment is recorded in other comprehensive income.

Deferred Income Tax Assets/Liabilities. The Company’s net deferred income tax asset arises from differences in the dates that items of income and expense enter into our reported income and taxable income. Deferred tax assets and liabilities are established for these items as they arise. From an accounting standpoint, deferred tax assets are reviewed to determine if they are realizable based on the historical level of taxable income, estimates of future taxable income and the reversals of deferred tax liabilities. In most cases, the realization of the deferred tax asset is based on future profitability. If the Company were to experience net operating losses for tax purposes in a future period, the realization of deferred tax assets would be evaluated for a potential valuation reserve.

Additionally, the Company reviews its uncertain tax positions annually under FASB Interpretation No. 48 (FIN No. 48), “Accounting for Uncertainty in Income Taxes,” codified within ASC 740. An uncertain tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount actually recognized is the largest amount of tax benefit that is greater than 50% likely to be recognized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. A significant amount of judgment is applied to determine both whether the tax position meets the "more likely than not" test as well as to determine the largest amount of tax benefit that is greater than 50% likely to be recognized. Differences between the position taken by management and that of taxing authorities could result in a reduction of a tax benefit or increase to tax liability, which could adversely affect future income tax expense.

Impairment of Goodwill and Intangible Assets. Core deposit and customer relationships, which are intangible assets with a finite life, are recorded on the Company's balance sheets. These intangible assets were capitalized as a result of past acquisitions and are being amortized over their estimated useful lives of up to 15 years. Core deposit intangible assets, with finite lives will be tested for impairment when changes in events or circumstances indicate that its carrying amount may not be recoverable. Core deposit intangible assets were tested for impairment during 2010 as part of the goodwill impairment test and no impairment was deemed necessary.

As a result of the Company's acquisition activity, goodwill, an intangible asset with an indefinite life, is reflected on the balance sheets. Goodwill is evaluated for impairment annually, unless there are factors present that indicate a potential impairment, in which case, the goodwill impairment test is performed more frequently than annually.

Fair Value Measurements. The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The Company estimates the fair value of a financial instrument using a variety of valuation methods. Where financial instruments are actively traded and have quoted market prices, quoted market prices are used for fair value. When the financial instruments are not actively traded, other observable market inputs, such as quoted prices of securities with similar characteristics, may be used, if available, to determine fair value. When observable market prices do not exist, the Company estimates fair value. The Company's valuation methods consider factors such as liquidity and concentration concerns. Other factors such as model assumptions, market dislocations, and unexpected correlations can affect estimates of fair value. Imprecision in estimating these factors can impact the amount of revenue or loss recorded.

SFAS No. 157, "Fair Value Measurements", which was codified into ASC 820, establishes a framework for measuring the fair value of financial instruments that considers the attributes specific to particular assets or liabilities and establishes a three-level hierarchy for determining fair value based on the transparency of inputs to each valuation as of the fair value measurement date. The three levels are defined as follows:

- Level 1 — quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 — inputs include quoted prices for similar assets and liabilities in active markets, quoted prices of identical or similar assets or liabilities in markets that are not active, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 — inputs that are unobservable and significant to the fair value measurement.

At the end of each quarter, the Company assesses the valuation hierarchy for each asset or liability measured. From time to time, assets or liabilities may be transferred within hierarchy levels due to changes in availability of observable market inputs to measure fair value at the measurement date. Transfers into or out of hierarchy levels are based upon the fair value at the beginning of the reporting period. A more detailed description of the fair values measured at each level of the fair value hierarchy can be found in Note 12 – "Disclosures of Fair Values of Financial Instruments."

Properties

On September 29, 2007, the Company closed its facilities located at 435 South Hamilton, Sullivan, Illinois in the IGA and at 220 North Highway Avenue, DeLand, Illinois. The customers and operations of both of these facilities were moved to other facilities in Sullivan and Monticello, Illinois. These actions did not have a material impact on the Company's consolidated financial statements.

During the first quarter of 2008, the Company obtained an independent appraisal of the DeLand property in anticipation of possibly donating or selling this property. Subsequently, the Company adjusted its carrying value of the property to the appraised value which resulted in a loss of $132,000 in the consolidated financial statements. The property was sold during the first quarter of 2009 for its appraised value of $50,000.

Acquisition

On September 10, 2010, First Mid Bank completed the acquisition of certain assets and the assumption of certain liabilities with respect to 10 branches of First Bank located in Bartonville, Bloomington, Galesburg, Knoxville, Peoria and Quincy, Illinois. Excluding the purchase accounting adjustments, the acquisition included the assumption of approximately $336 million in deposits and the purchase of approximately $135 million of loans and $5.3 million of premises and equipment associated with the acquired branch locations. First Mid Bank received cash of $178.3 million to assume the net liabilities less the purchase price of $15.7 million (4.77% of core deposits assumed). The acquisition resulted in goodwill of $8.4 million. See Note 21—"Business Combinations" in the notes to the financial statements for additional information related to the transaction.

Results of Operations

Net Interest Income

The largest source of operating revenue for the Company is net interest income. Net interest income represents the difference between total interest income earned on earning assets and total interest expense paid on interest-bearing liabilities. The amount of interest income is dependent upon many factors, including the volume and mix of earning assets, the general level of interest rates and the dynamics of changes in interest rates. The cost of funds necessary to support earning assets varies with the volume and mix of interest-bearing liabilities and the rates paid to attract and retain such funds.

The Company's average balances, interest income and expense and rates earned or paid for major balance sheet categories are set forth in the following table (dollars in thousands):

	Year Ended December 31, 2010			Year Ended December 31, 2009			Year Ended December 31, 2008		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS									
Interest-bearing deposits	$ 75,558	$ 186	0.25 %	$ 55,504	$ 106	0.19 %	$ 26,697	$ 423	1.59 %
Federal funds sold	65,644	85	0.13 %	54,630	66	0.12 %	19,266	336	1.75 %
Certificates of deposit investments	9,473	110	1.16 %	4,093	55	1.34 %	-	-	- %
Investment securities:									
Taxable	249,636	7,746	3.10 %	207,025	8,073	3.90 %	151,752	7,725	5.09 %
Tax-exempt (1)	23,251	953	4.10 %	23,384	963	4.12 %	20,312	834	4.11 %
Loans (2) (3)	718,669	41,803	5.82 %	701,521	42,146	6.01 %	740,083	47,748	6.45 %
Total earning assets	1,142,231	50,883	4.45 %	1,046,157	51,409	4.91 %	958,110	57,066	5.96 %
Cash and due from banks	21,378			18,634			19,433		
Premises and equipment	19,454			15,333			15,160		
Other assets	45,592			37,105			36,433		
Allowance for loan losses	(10,302)			(8,560)			(6,402)		
Total assets	$ 1,219,353			$ 1,108,669			$ 1,022,734		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Deposits:									
Demand deposits, interest-bearing	$ 421,743	3,190	0.76 %	$ 332,751	2,843	0.85 %	$ 288,057	3,635	1.26 %
Savings deposits	165,337	1,279	0.77 %	106,539	938	0.88 %	74,236	680	0.92 %
Time deposits	243,606	4,002	1.64 %	304,753	9,189	3.02 %	313,729	12,277	3.91 %
Securities sold under agreements to repurchase	76,758	133	0.17 %	72,589	129	0.18 %	61,108	872	1.43 %
FHLB advances	26,092	1,090	4.18 %	36,175	1,612	4.46 %	41,370	1,991	4.81 %
Federal funds purchased	8	-	.79 %	3	-	.47 %	-	-	- %
	20,620	1,053	5.11 %	20,620	1,104	5.36 %	20,620	1,396	6.77 %

Subordinated debentures									
Other debt	642	9	1.46 %	1,498	22	1.48 %	15,113	493	3.26 %
Total interest-bearing liabilities	954,806	10,756	1.13 %	874,928	15,837	1.81 %	814,233	21,344	2.62 %
Demand deposits	142,125			119,537			119,764		
Other liabilities	7,271			7,909			6,944		
Stockholders' equity	115,151			106,295			81,793		
Total liabilities & equity	$ 1,219,353			$ 1,108,669			$ 1,022,734		
Net interest income		$ 40,127			$ 35,572			$ 35,722	
Net interest spread			3.32 %			3.10 %			3.34 %
Impact of non-interest bearing funds			.19 %			.30 %			.39 %
Net yield on interest-earning assets			3.51 %			3.40 %			3.73 %

(1) The tax-exempt income is not recorded on a tax equivalent basis.
(2) Nonaccrual loans have been included in the average balances.
(3) Includes loans held for sale.

Changes in net interest income may also be analyzed by segregating the volume and rate components of interest income and interest expense. The following table summarizes the approximate relative contribution of changes in average volume and interest rates to changes in net interest income for the past two years (in thousands):

	2010 Compared to 2009 Increase – (Decrease)			2009 Compared to 2008 Increase – (Decrease)		
	Total Change	Volume (1)	Rate (1)	Total Change	Volume (1)	Rate (1)
Earning Assets:						
Interest-bearing deposits	$80	$264	$(526)	$(317)	$209	$(526)
Federal funds sold	19	238	(508)	(270)	238	(508)
Certificates of deposit investments	55	63	(8)	55	55	0
Investment securities:						
Taxable	(327)	1,495	(1,822)	348	2,412	(2,064)
Tax-exempt (2)	(10)	(5)	(5)	129	127	2
Loans (3)	(343)	1,013	(1,356)	(5,602)	(2,426)	(3,176)
Total interest income	(526)	2,623	(3,149)	(5,657)	615	(6,272)
Interest-Bearing Liabilities:						
Deposits:						
Demand deposits, interest-bearing	347	677	(330)	(792)	507	(1,299)
Savings deposits	341	469	(128)	258	305	(47)
Time deposits	(5,187)	(1,583)	(3,604)	(3,088)	(445)	(2,643)
Securities sold under agreements to repurchase	4	10	(6)	(743)	139	(882)
FHLB advances	(522)	(426)	(96)	(379)	(240)	(139)
Federal funds purchased	-	-	-	-	-	-
Subordinated debentures	(51)	-	(51)	(292)	-	(292)
Other debt	(13)	(13)	-	(471)	(293)	(178)
Total interest expense	(5,081)	(866)	(4,215)	(5,507)	(27)	(5,480)
Net interest income	$4,555	$3,489	$1,066	$(150)	$642	$(792)

(1) Changes attributable to the combined impact of volume and rate have been allocated proportionately to the change due to volume and the change due to rate.
(2) The tax-exempt income is not recorded on a tax equivalent basis.
(3) Nonaccrual loans are not material and have been included in the average balances.

Net interest income increased $4.6 million, or 12.8% in 2010, compared to a decrease of $150,000, or .4% in 2009. The increase in net interest income in 2010 was primarily due to a greater decline in rates on interest-bearing liabilities than the decline in rates on interest-bearing assets. The decrease in net interest income in 2009 was primarily due to a greater decline in rates on interest-bearing assets than the decline in rates on interest-bearing liabilities and the Company maintained a greater amount of liquidity at a reduced margin.

In 2010, average earning assets increased by $96.1 million, or 9.2%, and average interest-bearing liabilities increased $79.9 million or 9.1% compared with 2009. In 2009, average earning assets increased by $88.0 million, or 9.2%, and average interest-bearing liabilities increased $60.7 million or 7.5% compared with 2008. Changes in average balances are shown below:

- Average interest-bearing deposits held by the Company increased $20.1 million or 36.2% in 2010 compared to 2009. In 2009, average interest-bearing deposits held by the Company increased $32.9 million or 123.2% compared to 2008.

- Average federal funds sold increased $11.0 million or 20.1% in 2010 compared to 2009. In 2009, average federal funds sold increased $35.4 million or 183.7% compared to 2008.

- Average certificates of deposit investments increased $5.4 million or 131.9% in 2010 compared to 2009. In 2009, average certificates of deposit investments increased $4.1 million or 100% compared to 2008.

- Average loans increased by $17.1 million or 2.4% in 2010 compared to 2009. In 2009, average loans decreased by $38.6 million or 5.2% compared to 2008.

- Average securities increased by $42.5 million or 18.4% in 2010 compared to 2009. In 2009, average securities increased by $58.3 million or 33.9% compared to 2008.

- Average deposits increased by $86.6 million or 11.6% in 2010 compared to 2009. In 2009, average deposits increased by $68.0 million or 10.1% compared to 2008.

- Average securities sold under agreements to repurchase increased by $4.2 million or 5.8% in 2010 compared to 2009. In 2009, average securities sold under agreements to repurchase increased by $11.5 million or 18.8% compared to 2008.

- Average borrowings and other debt decreased by $10.9 million or 18.7% in 2010 compared to 2009. In 2009, average borrowings and other debt increased by $18.8 million or 24.4% compared to 2008.

  - The federal funds rate remained at a range of 0% to .25% at December 31, 2010, 2009 and 2008.

- Net interest margin increased to 3.51% compared to 3.40% in 2009 and 3.73% in 2008. Asset yields decreased by 46 basis points in 2010, while interest-bearing liabilities decreased by 68 basis points.

To compare the tax-exempt yields on interest-earning assets to taxable yields, the Company also computes non-GAAP net interest income on a tax equivalent basis where the interest earned on tax-exempt securities is adjusted to an amount comparable to interest subject to normal income taxes, assuming a federal tax rate of 34% (referred to as the tax equivalent adjustment). The tax equivalent basis adjustments to net interest income for 2010, 2009 and 2008 were $491,000, $497,000 and $430,000, respectively. The net yield on interest-earning assets on a tax equivalent basis was 3.57% in 2010, 3.46% in 2009 and 3.79% in 2008.

Provision for Loan Losses

The provision for loan losses in 2010 was $3,737,000 compared to $3,594,000 in 2009 and $3,559,000 in 2008. Nonperforming loans decreased to $10,434,000 at December 31, 2010 from $12,720,000 at December 31, 2009 and compared to $7,285,000 at December 31, 2008. The decrease in 2010 was primarily due to loans that paid-off or became current during the year and loans transferred to other real estate owned during the year. The increase in 2009 occurred as a result of loans that became nonperforming during the year due to continued deterioration in economic conditions including increased unemployment, reduction in cash flow from increased vacancies in commercial properties and declines in property values. Net charge-offs were $2,806,000 during 2010, $1,719,000 during 2009, and $2,090,000 during 2008. For information on loan loss experience and nonperforming loans, see “Nonperforming Loans and Repossessed Assets” and “Loan Quality and Allowance for Loan Losses” herein.

Other Income

An important source of the Company’s revenue is derived from other income. The following table sets forth the major components of other income for the last three years (in thousands):

				$ Change From Prior Year	
	2010	2009	2008	2010	2009
Trust	$2,601	$2,229	$2,666	$372	$(437)
Brokerage	536	424	574	112	(150)
Insurance commissions	1,779	1,912	1,978	(133)	(66)
Service charges	4,662	4,952	5,571	(290)	(619)
Securities gains	543	637	293	(94)	344

Impairment losses on securities	(1,418)	(1,812)	-	394	(1,812)
Gain on sale of merchant banking portfolio	-	1,000	-	(1,000)	1,000
Mortgage banking	776	664	437	112	227
ATM / debit card revenue	2,869	2,333	2,147	536	186
Other	1,472	1,116	1,598	356	(482)
Total other income	$13,820	$13,455	$15,264	$365	$(1,809)

Total non-interest income increased to $13,820,000 in 2010 compared to $13,455,000 in 2009 and $15,264,000 in 2008. The primary reasons for the more significant year-to-year changes in other income components are as follows:

- Trust revenues increased $372,000 or 16.7% to $2,601,000 in 2010 from $2,229,000 in 2009, compared to $2,666,000 in 2008. The increase from 2009 to 2010 in trust revenues was due to an increase in revenues from employee benefits accounts and an increase in equity prices during the year. Trust assets were $507.5 million at December 31, 2010 compared to $459.1 million and $413.8 million at December 31, 2009 and 2008, respectively.

- Revenue from brokerage annuity sales increased $112,000 or 26.4% to $536,000 in 2010 from $424,000 in 2009, compared to $574,000 in 2008. The increase from 2009 to 2010 was due an increase in commissions received from the sale of annuities.

- Insurance commissions decreased $133,000 or 7.0% to $1,779,000 in 2010 from $1,912,000 in 2009, compared to $1,978,000 in 2008. The decrease from 2009 to 2010 was due to a decrease in commissions received on sales of business property and casualty insurance.

- Fees from service charges decreased $290,000 or 5.9% to $4,662,000 in 2010 from $4,952,000 in 2009, compared to $5,571,000 in 2009. This decrease from 2009 to 2010 was primarily the result of a decrease in the number of overdrafts.

- Net securities gains in 2010 were $543,000 compared to net securities gains of $637,000 in 2009, and $293,000 in 2008. Several securities in the investment portfolio were sold to improve the overall portfolio mix and the margin in 2010, 2009 and 2008.

- During 2010, the Company recorded other-than-temporary impairment charges amounting to $1,418,000 for its investments in four trust preferred securities compared to $1,812,000 during 2009. See Note 4 - "Investment Securities" for a more detailed description of these charges.

- During the first quarter of 2009, the Company had a $1 million gain on the sale of First Mid Bank's merchant card servicing portfolio. There were no gains on sales of other assets during 2010 or 2008.

- Mortgage banking income increased $112,000 or 16.9% to $776,000 in 2010 from $664,000 in 2009, compared to $437,000 in 2008. This increase from 2009 to 2010 was due to an increase in the volume of fixed rate loans originated and sold by First Mid Bank. Loans sold balances are as follows:

  - $64 million (representing 570 loans) in 2010
  - $63 million (representing 552 loans) in 2009
  - $46 million (representing 381 loans) in 2008

- Revenue from ATMs and debit cards increased $536,000 or 23.0% to $2,869,000 in 2010 from $2,333,000 in 2009, compared to $2,147,000 in 2008. This increase from 2009 to 2010 was due to increased usage.

- Other income increased $356,000 or 31.9% to $1,472,000 in 2010 from $1,116,000 in 2009, compared to $1,598,000 in 2008. This increase from 2009 to 2010 was primarily due to a reclassification of rental income from a repossessed property that was previously recorded net of rental expense offset by decreases in merchant card income due to sale of the Bank's merchant card servicing portfolio during the first quarter of 2009 and a reduction in loan closing fees.

Other Expense

The major categories of other expense include salaries and employee benefits, occupancy and equipment expenses and other operating expenses associated with day-to-day operations. The following table sets forth the major components of other expense for the last three years (in thousands):

				$ Change From Prior Year	
	2010	2009	2008	2010	2009

Salaries and benefits	$18,649	$16,830	$16,876	$1,819	$(46)
Occupancy and equipment	5,851	4,989	4,959	862	30
Other real estate owned, net	1,076	470	234	606	236
FDIC insurance assessment expense	1,508	1,943	158	(435)	1,785
Amortization of other intangibles	814	730	766	84	(36)
Stationery and supplies	610	563	557	47	6
Legal and professional fees	2,361	2,021	1,820	340	201
Marketing and promotion	940	963	847	(23)	116
Other	5,118	4,703	5,243	415	(540)
Total other expense	$36,927	$33,212	$31,460	$3,715	$1,752

Total non-interest expense increased to $36,927,000 in 2010 from $33,212,000 in 2009 and $31,460,000 in 2008. The primary reasons for the more significant year-to-year changes in other expense components are as follows:

- Salaries and employee benefits, the largest component of other expense, increased $1,819,000 or 10.8% to $18,649,000 in 2010 from $16,830,000 in 2009, compared to $16,876,000 in 2008. The increase in 2010 was as primarily due to the addition of 76 full-time equivalent employees resulting from the branch acquisition, an increase in incentive compensation expense as a result of achieving desired objectives in 2010 compared to during the year 2009 and merit raises for continuing employees during 2010. There were 419 full-time equivalent employees at December 31, 2010 compared to 347 at December 31, 2009 and 343 at December 31, 2008.

- Occupancy and equipment expense increased $862,000 or 17.3% to $5,851,000 in 2010 from $4,989,000 in 2009, compared to $4,959,000 in 2008. The increase in 2010 was primarily due to increases in building rent and expenses for computer software and software maintenance for existing and newly acquired branches.

- Net other real estate owned expense increased $606,000 or 128.9% to $1,076,000 in 2010 from $470,000 in 2009, compared to $234,000 in 2008. The increase in 2010 was due to a reclassification of rental income from a repossessed property that was previously recorded net of rental expense and an increase in repairs and real estate tax expenses on properties held, offset by several owned properties sold at a gain during 2010 compared to properties owned sold at a loss during the same period in 2009.

- FDIC insurance expense decreased $435,000 or 22.4% to $1,508,000 in 2010 from $1,943,000 in 2009, compared to $158,000 in 2008. The decrease in 2010 was due to expense accrued for a special assessment in 2009 that did not occur in 2010 offset by increases in assessment rates during 2010 and the increase in daily deposit balances after the branch acquisition.

- Amortization of other intangibles expense increased $84,000 in 2010 due to an additional core deposit intangible asset resulting from the branch acquisition. Amortization of other intangibles expense decreased $36,000 in 2009 due to complete amortization of one core deposit intangible in the second quarter of 2009.

- Other operating expenses increased $415,000 or 8.8% to $5,118,000 in 2010 from $4,703,000 in 2009, compared to $5,243,000 in 2008. In 2010, this increase was primarily due to additional expenses incurred to complete the branch acquisition during the third quarter.

- On a net basis, all other categories of operating expenses increased $364,000 or 10.3% to $3,911,000 in 2010 from $3,547,000 in 2009, compared to $3,224,000 in 2008. In 2010, the increase was primarily due to increased legal and other professional expenses associated with the Company's branch acquisition offset by a decrease in marketing and promotion expenses.

Income Taxes

Income tax expense amounted to $4,522,000 in 2010 compared to $4,007,000 in 2009 and $5,443,000 in 2008. Effective tax rates were 34.0%, 32.8% and 34.1%, respectively, for 2010, 2009 and 2008.

The Company adopted the provisions of FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes," which was codified within ASC 740, on January 1, 2007. The implementation of FIN 48 did not impact the Company's financial statements. The Company files U.S. federal and state of Illinois income tax returns. The Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2007.

Analysis of Balance Sheets

Loans

The loan portfolio (net of unearned discount) is the largest category of the Company's earning assets. The following table summarizes the composition of the loan portfolio for the last five years (in thousands):

	2010	2009	2008	2007	2006

		% Outstanding Loans					
Construction and land development	$20,379	2.5	%	$28,041	$40,362	$55,581	$47,309
Farm loans	64,992	8.1	%	62,330	65,647	61,898	59,420
1-4 Family residential properties	179,527	22.3	%	180,415	200,204	193,065	189,068
Multifamily residential properties	22,146	2.8	%	19,467	23,833	30,795	29,847
Commercial real estate	300,825	37.4	%	226,400	217,307	203,282	205,932
Loans secured by real estate	587,869	73.1	%	516,653	547,353	544,621	531,576
Agricultural loans	58,307	7.2	%	54,144	54,098	51,793	50,526
Commercial and industrial loans	126,319	15.7	%	105,351	109,324	116,176	105,799
Consumer loans	19,655	2.4	%	20,815	25,806	29,903	29,765
All other loans	12,431	1.5	%	3,787	5,357	5,668	5,902
Total loans	$804,581	100.0	%	$700,750	$741,938	$748,161	$723,568

Loan balances increased by $103.8 million or 14.8% from December 31, 2009 to December 31, 2010 primarily due to approximately $133 million of loans (recorded at fair value) acquired in the branch acquisition offset by decreases in loans secured by real estate due to a lack of demand from quality borrowers and First Mid Bank's enhanced underwriting standards as a result of economic conditions. The balances of loans sold into the secondary market were $64 million in 2010, compared to $63 million in 2009. The balance of real estate loans held for sale, included in the balances shown above, amounted to $114,000 and $149,000 as of December 31, 2010 and 2009, respectively.

All of the loans acquired in the branch acquisition were performing loans. The fair value of the loans acquired was determined using a discounted cash flow analysis. The difference between the fair value and acquired value of the purchased loans of $2.1 million (a discount of approximately 1.6% of the total loans acquired) is being accreted to interest income over the remaining term of the loans. The balance of the loan discount as of December 31, 2010 is $1.75 million.

Commercial and commercial real estate loans generally involve higher credit risks than residential real estate and consumer loans. Because payments on loans secured by commercial real estate or equipment are often dependent upon the successful operation and management of the underlying assets, repayment of such loans may be influenced to a great extent by conditions in the market or the economy. The Company does not have any sub-prime mortgages or credit card loans outstanding which are also generally considered to be higher credit risk.

The following table summarizes the loan portfolio geographically by branch region as of December 31, 2010 and 2009 (dollars in thousands):

	2010			2009		
	Principal balance	% Outstanding loans		Principal balance	% Outstanding loans	
Mattoon region	$148,682	18.5	%	$144,521	20.6	%
Charleston region	54,649	6.8	%	58,890	8.4	%
Sullivan region	68,300	8.5	%	68,802	9.8	%
Effingham region	86,542	10.8	%	89,141	12.7	%
Decatur region	201,246	25.0	%	212,908	30.4	%
Peoria region	133,736	16.6	%	-	-	%
Highland region	111,426	13.8	%	126,488	18.1	%
Total all regions	$804,581	100.0	%	$700,750	100.0	%

Loans are geographically dispersed among these regions located in central and southwestern Illinois. While these regions have experienced some economic stress during 2010 and 2009, the Company does not consider these locations high risk areas since these regions have not experienced the significant declines in real estate values seen in other areas in the United States.

The Company does not have a concentration, as defined by the regulatory agencies, in construction and land development loans or commercial real estate loans as a percentage of total risk-based capital for the periods shown above. At December 31, 2010 and 2009, the Company did have industry loan concentrations in excess of 25% of total risk-based capital in the following industries (dollars in thousands):

	2010	2009

	Principal balance	% Outstanding loans		Principal balance	% Outstanding Loans	
Other grain farming	$108,149	13.44	%	$102,515	14.63	%
Lessors of non-residential buildings	87,236	10.84	%	72,016	10.28	%
Lessors of residential buildings & dwellings	49,484	6.15	%	44,232	6.31	%
Hotels and motels	49,679	6.17	%	50,788	7.25	%

The Company had no further industry loan concentrations in excess of 25% of total risk-based capital.

The following table presents the balance of loans outstanding as of December 31, 2010, by contractual maturities (in thousands):

	Maturity (1)			
	One year or less(2)	Over 1 through 5 years	Over 5 years	Total
Construction and land development	$14,534	$5,794	$51	$20,379
Farm loans	9,204	46,564	9,224	64,992
1-4 Family residential properties	26,770	91,447	61,310	179,527
Multifamily residential properties	2,407	14,632	5,107	22,146
Commercial real estate	41,142	193,527	66,156	300,825
Loans secured by real estate	94,057	351,964	141,848	587,869
Agricultural loans	40,208	17,454	645	58,307
Commercial and industrial loans	81,929	36,185	8,205	126,319
Consumer loans	4,644	14,209	802	19,655
All other loans	3,994	2,349	6,088	12,431
Total loans	$224,832	$422,161	$157,588	$804,581

(1) Based upon remaining contractual maturity.
(2) Includes demand loans, past due loans and overdrafts.

As of December 31, 2010, loans with maturities over one year consisted of $522 million in fixed rate loans and $58 million in variable rate loans. The loan maturities noted above are based on the contractual provisions of the individual loans. The Company has no general policy regarding renewals and borrower requests, which are handled on a case-by-case basis.

Nonperforming Loans and Repossessed Assets

Nonperforming loans include: (a) loans accounted for on a nonaccrual basis; (b) accruing loans contractually past due ninety days or more as to interest or principal payments; and (c) loans not included in (a) and (b) above which are defined as “restructured loans”. Repossessed assets include primarily repossessed real estate and automobiles.

The Company’s policy is to discontinue the accrual of interest income on any loan for which principal or interest is ninety days past due. The accrual of interest is discontinued earlier when, in the opinion of management, there is reasonable doubt as to the timely collection of interest or principal. Once interest accruals are discontinued, accrued but uncollected interest is charged to current year income. Subsequent receipts on non-accrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal.

Restructured loans are loans on which, due to deterioration in the borrower’s financial condition, the original terms have been modified in favor of the borrower or either principal or interest has been forgiven.

Repossessed assets represent property acquired as the result of borrower defaults on loans. These assets are recorded at estimated fair value, less estimated selling costs, at the time of foreclosure or repossession. Write-downs occurring at foreclosure are charged against the allowance for loan losses. On an ongoing basis, properties are appraised as required by market indications and applicable regulations. Write-downs for subsequent declines in value are recorded in non-interest expense in other real estate owned along with other expenses related to maintaining the properties.

The following table presents information concerning the aggregate amount of nonperforming loans and repossessed assets (in thousands):

	December 31,				
	2010	2009	2008	2007	2006
Nonaccrual loans	$9,332	$12,720	$7,285	$7,460	$3,639
Restructured loans which are performing in accordance with revised terms	1,102	-	-	21	29
Total nonperforming loans	10,434	12,720	7,285	7,481	3,668
Repossessed assets	6,199	2,896	2,400	524	1,396
Total nonperforming loans and repossessed assets	$16,633	$15,616	$9,685	$8,005	$5,064
Nonperforming loans to loans, before allowance for loan losses	1.30 %	1.82 %	.98 %	1.00 %	.51 %
Nonperforming loans and repossessed assets to loans, before allowance for loan losses	2.07 %	2.23 %	1.31 %	1.07 %	.70 %

The $3,388,000 decrease in nonaccrual loans during 2010 resulted from the net of $7,450,000 of loans put on nonaccrual status, offset by $3,446,000 of loans transferred to other real estate owned, $2,496,000 of loans charged off and $4,896,000 of loans becoming current or paid-off. The following table summarizes the composition of nonaccrual loans (in thousands):

	December 31, 2010			December 31, 2009		
	Balance	% of Total		Balance	% of Total	
Construction and land development	$1,955	20.9	%	$2,064	16.2	%
Farm loans	540	5.8	%	1,355	10.6	%
1-4 Family residential properties	2,565	27.5	%	1,968	15.5	%
Multifamily residential properties	573	6.1	%	487	3.8	%
Commercial real estate	2,149	23.0	%	6,063	47.7	%
Loans secured by real estate	7,782	83.3	%	11,937	93.8	%
Agricultural loans	828	8.9	%	-	-	%
Commercial and industrial loans	708	7.6	%	783	6.2	%
Consumer loans	14	0.2	%	-	-	%
Total nonaccrual loans	$9,332	100.0	%	$12,720	100.0	%

Interest income that would have been reported if nonaccrual and restructured loans had been performing totaled $428,000, $672,000 and $274,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

The $3,303,000 increase in repossessed assets during 2010 resulted from the net of $9,996,000 of additional assets repossessed, $119,000 of further write-downs of repossessed assets to current market value and $6,574,000 of repossessed assets sold. The following table summarizes the composition of repossessed assets (in thousands):

	December 31, 2010			December 31, 2009		
	Balance	% of Total		Balance	% of Total	
Construction and land development	$1,234	19.9	%	$1,252	16.2	%
1-4 Family residential properties	514	8.3	%	945	15.5	%
Multifamily residential properties	170	2.7	%	-	-	%
Commercial real estate	4,209	67.9	%	665	47.7	%
Total real estate	6,127	98.8	%	2,862	93.8	%
Other collateral	72	1.2	%	34	-	
Total repossessed collateral	$6,199	100.0	%	$2,896	100.0	%

Repossessed assets sold during 2010 resulted in a net loss of $15,000, of which $12,000 was related to real estate asset sales and $3,000 was related to other repossessed asset sales.

Loan Quality and Allowance for Loan Losses

The allowance for loan losses represents management's estimate of the reserve necessary to adequately account for the estimate of potential losses inherent in the current portfolio. The provision for loan losses is the charge against current earnings that is determined by management as the amount needed to maintain an adequate allowance for loan losses. In determining the adequacy of the allowance for loan losses, and therefore the provision to be charged to current earnings, management relies predominantly on a disciplined credit review and approval process that extends to the full range of the Company's credit exposure. The review process is directed by overall lending policy and is intended to identify, at the earliest possible stage, borrowers who might be facing financial difficulty. Once identified, the magnitude of exposure to individual borrowers is quantified in the form of specific allocations of the allowance for loan losses. Management considers collateral values and guarantees in the determination of such specific allocations. Additional factors considered by management in evaluating the overall adequacy of the allowance include historical net loan losses, the level and composition of nonaccrual, past due and renegotiated loans, trends in volumes and terms of loans, effects of changes in risk selection and underwriting standards or lending practices, lending staff changes, concentrations of credit, industry conditions and the current economic conditions in the region where the Company operates.

Given the current state of the economy, management did assess the impact of the recession on each category of loans and adjusted historical loss factors for more recent economic trends. Management utilizes a five-year loss history as one component in assessing the probability of inherent future losses. Given the decline in economic conditions, management also increased its allocation to various loan categories for economic factors during 2010 and 2009. Some of the economic factors include the potential for reduced cash flow for commercial operating loans from reduction in sales or increased operating costs, decreased occupancy rates for commercial buildings, reduced levels of home sales for commercial land developments, the uncertainty regarding grain prices and increased operating costs for farmers, and increased levels of unemployment and bankruptcy impacting consumer’s ability to pay. Each of these economic uncertainties was taken into consideration in developing the level of the reserve. Management considers the allowance for loan losses a critical accounting policy.

Management recognizes there are risk factors that are inherent in the Company's loan portfolio. All financial institutions face risk factors in their loan portfolios because risk exposure is a function of the business. The Company's operations (and therefore its loans) are concentrated in east central Illinois, an area where agriculture is the dominant industry. Accordingly, lending and other business relationships with agriculture-based businesses are critical to the Company's success. At December 31, 2010, the Company's loan portfolio included $123.3 million of loans to borrowers whose businesses are directly related to agriculture. Of this amount, $108.1 million was concentrated in other grain farming. Total loans to borrowers whose businesses are directly related to agriculture increased $6.8 million from $116.5 million at December 31, 2009 while loans concentrated in other grain farming increased $5.6 million from $102.5 million at December 31, 2009. While the Company adheres to sound underwriting practices, including collateralization of loans, any extended period of low commodity prices, significantly reduced yields on crops and/or reduced levels of government assistance to the agricultural industry could result in an increase in the level of problem agriculture loans and potentially result in loan losses within the agricultural portfolio.

In addition, the Company has $49.7 million of loans to motels and hotels. The performance of these loans is dependent on borrower specific issues as well as the general level of business and personal travel within the region. While the Company adheres to sound underwriting standards, a prolonged period of reduced business or personal travel could result in an increase in nonperforming loans to this business segment and potentially in loan losses. The Company also has $87.2 million of loans to lessors of non-residential buildings and $49.5 million of loans to lessors of residential buildings and dwellings.

Analysis of the allowance for loan losses for the past five years and of changes in the allowance for these periods is summarized as follows (dollars in thousands):

	2010		2009		2008		2007		2006	
Average loans outstanding, net of unearned income	$718,669		$701,521		$740,083		$728,790		$691,726	
Allowance-beginning of year	$9,462		$7,587		$6,118		$5,876		$4,648	
Balance added through acquisitions	-		-		-		-		1,405	
Charge-offs:										
Real estate-mortgage	2,551		1,240		1,640		368		231	
Commercial, financial and agricultural	287		287		479		180		595	
Installment	103		176		119		100		142	
Other	181		176		184		215		188	
Total charge-offs	3,122		1,879		2,422		863		1,156	
Recoveries:										
Real estate-mortgage	146		6		75		9		8	
Commercial, financial and agricultural	35		27		98		48		30	
Installment	29		31		38		33		49	
Other	106		96		121		153		132	
Total recoveries	316		160		332		243		219	
Net charge-offs	2,806		1,719		2,090		620		937	
Provision for loan losses	3,737		3,594		3,559		862		760	
Allowance-end of year	$10,393		$9,462		$7,587		$6,118		$5,876	
Ratio of net charge-offs to average loans	.39	%	.25	%	.28	%	.09	%	.14	%
Ratio of allowance for loan losses to loans outstanding (at end of year)	1.29	%	1.35	%	1.02	%	.82	%	.81	%
Ratio of allowance for loan losses to nonperforming loans	99.6	%	74.4	%	104.1	%	81.8	%	160.2	%

The ratio of the allowance for loan losses to nonperforming loans is 99.6% as of December 31, 2010 compared to 74.4% as of December 31, 2009. While the balance of nonperforming loans reflects the total loan balance, the allowance for loan losses reflects only the portion of the loan balance that is an estimated potential loss. Therefore the decrease in nonperforming loans and the increase in the allowance for loan losses required to account for probable losses led to the increase of this ratio. The increase in 2010 occurred as a result of loans that became nonperforming during the year due to continued deterioration in economic conditions including increased unemployment, reduction in cash flow from increased vacancies in commercial properties and declines in property values. The current economic environment and the increase in estimated probable losses in the loan portfolio resulted in the increased allowance balance.

The Company minimizes credit risk by adhering to sound underwriting and credit review policies. These policies are reviewed at least annually, and the Board of Directors approves all changes. Senior management is actively involved in business development efforts and the maintenance and monitoring of credit underwriting and approval. The loan review system and controls are designed to identify, monitor and address asset quality problems in an accurate and timely manner. At least quarterly, the Board of Directors reviews the status of problem loans. In addition to internal policies and controls, regulatory authorities periodically review asset quality and the overall adequacy of the allowance for loan losses.

During 2010, the Company had net charge-offs of $2,806,000 compared to $1,719,000 in 2009 and $2,090,000 in 2008. During 2010, the Company's significant charge-offs included $2,076,000 of commercial real estate mortgage loans of four borrowers. During 2009, the Company's significant charge-offs included $173,000 on commercial loans of two borrowers, $107,000 of real estate mortgage loans of one borrower and $902,000 of commercial real estate mortgage loans of four borrowers. During 2008, the Company's significant charge-offs included $204,000 on commercial loans of one borrower, $200,000 of real estate mortgage loans of one borrower and $1,181,000 of commercial real estate mortgage loans of three borrowers.

At December 31, 2010, the allowance for loan losses amounted to $10,393,000, or 1.29% of total loans, and 99.6% of nonperforming loans. At December 31, 2009, the allowance for loan losses amounted to $9,462,000, or 1.35% of total loans, and 74.4% of nonperforming loans.

The allowance is allocated to the individual loan categories by a specific allocation for all classified loans plus a percentage of loans not classified based on historical losses and other factors. The allowance for loan losses, in management's judgment, is allocated as follows to cover probable loan losses (dollars in thousands):

	December 31, 2010			December 31, 2009			December 31, 2008		
	Allowance for loan losses	% of loans to total Loans		Allowance for loan losses	% of loans to total loans		Allowance for loan losses	% of loans to total loans	
Residential real estate	$440	25.1	%	$488	28.5	%	$510	30.2	%
Commercial / Commercial real estate	8,307	55.7	%	7,428	51.4	%	5,345	49.5	%
Agricultural / Agricultural real estate	404	15.3	%	315	16.6	%	223	16.1	%
Consumer	282	2.4	%	312	3.0	%	358	3.5	%
Other	110	1.5	%	98	.5	%	78	.7	%
Total allocated	9,543			8,641			6,514		
Unallocated	850	N/A		821	N/A		1,073	N/A	
Allowance at end of year	$10,393	100.0	%	$9,462	100.0	%	$7,587	100.0	%

	December 31, 2007			December 31, 2006		
	Allowance for loan losses	% of loans to total loans		Allowance for loan losses	% of loans to total loans	
Residential real estate	$214	29.9	%	$215	30.3	%
Commercial / Commercial real estate	3,828	50.1	%	3,395	49.6	%
Agricultural / Agricultural real estate	531	15.2	%	607	15.2	%
Consumer	404	4.0	%	382	4.1	%
Other	22	.8	%	26	.8	%
Total allocated	4,999			4,625		
Unallocated	1,119	N/A		1,251	N/A	
Allowance at end of year	$6,118	100.0	%	$5,876	100.0	%

The allowance allocated to commercial and commercial real estate loans increased $.9 million during 2010 and $2.1 million during 2009. This resulted from an increase in the balance of impaired and classified loans and an increase in the allocation percent for this loan category. These increases were due to the ongoing poor economy which has led to increased vacancies in commercial real estate and deficient cash flows from business operations.

The unallocated allowance represents an estimate of the probable, inherent, but yet undetected, losses in the loan portfolio. It is based on factors that cannot necessarily be associated with a specific credit or loan category and represents management's estimate to ensure that the overall allowance of loan losses appropriately reflects a margin for the imprecision necessarily inherent in the estimates of expected credit losses. Fluctuations in the unallocated portion of the allowance result from qualitative factors such as economic conditions, expansionary activities, and portfolio composition that influence the level of risk in the portfolio but are not specifically quantified.

Securities

The Company's overall investment objectives are to insulate the investment portfolio from undue credit risk, maintain adequate liquidity, insulate capital against changes in market value and control excessive changes in earnings while optimizing investment performance. The types and maturities of securities purchased are primarily based on the Company's current and projected liquidity and interest rate sensitivity positions.

The following table sets forth the year-end amortized cost of the Company's securities for the last three years (dollars in thousands):

	December 31,					
	2010		2009		2008	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$152,086	1.90 %	$89,640	3.27 %	$72,074	4.72 %
Obligations of states and political subdivisions	26,599	4.05 %	23,530	4.13 %	22,042	4.10 %
Mortgage-backed securities:						
GSE residential	158,936	3.72 %	111,301	4.36 %	61,102	5.66 %
Trust preferred securities	6,595	3.74 %	7,758	4.22 %	9,328	6.23 %
Other securities	2,035	2.48 %	6,166	4.56 %	6,210	4.56 %
Total securities	$346,251	2.94 %	$238,395	3.93 %	$170,756	5.05 %

At December 31, 2010, the Company's investment portfolio showed an increase of $107.9 million from December 31, 2009 primarily due to the purchase of several U.S. Treasury securities and obligations of U.S. government corporations and agencies securities as well as several mortgage-backed securities. When purchasing investment securities, the Company considers its overall liquidity and interest rate risk profile, as well as the adequacy of expected returns relative to the risks assumed.

The table below presents the credit ratings as of December 31, 2010, for all investment securities:

	Amortized Cost	Estimated Fair Value	Average Credit Rating of Fair Value at December 31, 2009 (1)					
			AAA	AA +/-	A+/-	BBB +/-	< BBB -	Not rated
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 152,086	$ 152,381	$152,381	$-	$-	$-	$-	$-
Obligations of state and political	26,599	26,967	2,313	17,383	2,297	1,549	-	3,425

subdivisions								
Mortgage-backed securities (2)	158,936	160,931	-	-	-	-	-	160,931
Trust preferred securities	6,595	581	-	-	-	-	581	-
Other securities	2,035	2,009	-	-	1,978	-	-	31
Total investments	$ 346,251	$ 342,869	$ 154,694	$ 19,361	$ 2,297	$ 1,549	$ 581	$ 164,387

(1) Credit ratings reflect the lowest current rating assigned by a nationally recognized credit rating agency.

(2) Mortgage-backed securities include mortgage-backed securities (MBS) and collateralized mortgage obligation (CMO) issues from the following government sponsored enterprises: FHLMC, FNMA, GNMA and FHLB. While MBS and CMOs are no longer explicitly rated by credit rating agencies, the industry recognizes that they are backed by agencies which have an implied government guarantee.

The trust preferred securities are four trust preferred pooled securities issued by FTN Financial Securities Corp. ("FTN"). The following table contains information regarding these securities as of December 31, 2010:

Deal name	PreTSL I	PreTSL II	PreTSL VI	PreTSL XXVIII
Class	Mezzanine	Mezzanine	Mezzanine	C-1
Book value	$829,435	$1,142,767	$201,160	$4,422,127
Fair value	$227,523	$137,031	$80,653	$136,594
Unrealized gains/(losses)	$(601,912)	$(1,005,736)	$(120,507)	$(4,285,533)
Other-than-temporary impairment recorded in earnings	$691,000	$2,070,531	$127,146	$341,303
Lowest credit rating assigned	Ca	Ca	Ca	C
Number of performing banks	20	23	3	31
Number of issuers in default	6	5	-	6
Number of issuers in deferral	3	7	3	8
Defaults & deferrals as a % of remaining collateral	38.2 %	38.8 %	80.9 %	28.9 %
Discount margin	9.74 %	9.68 %	1.80 %	1.29 %
Recovery assumption (1)	10 %	10 %	10 %	10 %
Prepayment assumption (2)	5 %	5 %	5 %	5 %

(1) With 2 year lag
(2) Every 5 years beginning after 2013

Other-than-temporary Impairment of Securities

Declines in the fair value, or unrealized losses, of all available for sale investment securities, are reviewed to determine whether the losses are either a temporary impairment or an other-than-temporary impairment (OTTI). Temporary adjustments are recorded when the fair value of a security fluctuates from its historical cost. Temporary adjustments are recorded in accumulated other comprehensive income, and impact the Company's equity position. Temporary adjustments do not impact net income. A recovery of available for sale security prices also is recorded as an adjustment to other comprehensive income for securities that are temporarily impaired, and results in a positive impact to the Company's equity position.

OTTI is recorded when the fair value of an available for sale security is less than historical cost, and it is probable that all contractual cash flows will not be collected. Investment securities are evaluated for OTTI on at least a quarterly basis. In conducting this assessment, the Company evaluates a number of factors including, but not limited to:

- how much fair value has declined below amortized cost;
- how long the decline in fair value has existed;
- the financial condition of the issuers;
- contractual or estimated cash flows of the security;
- underlying supporting collateral;
- past events, current conditions and forecasts;
- significant rating agency changes on the issuer; and
- the Company's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

If the Company intends to sell the security or if it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis, the entire amount of OTTI is recorded to noninterest income, and therefore, results in a negative impact to net income. Because the available for sale securities portfolio is recorded at fair value, the conclusion as to whether an investment decline is other-than-temporarily impaired, does not significantly impact the Company's equity position, as the amount of the temporary adjustment has already been reflected in accumulated other comprehensive income/loss.

If the Company does not intend to sell the security and it is not more-likely-than-not it will be required to sell the security before recovery of its amortized cost basis only the amount related to credit loss is recognized in earnings. In determining the portion of OTTI that is related to credit loss, the Company compares the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. The remaining portion of OTTI, related to other factors, is recognized in other comprehensive earnings, net of applicable taxes. The Company recognized $1.4 million and $1.8 million of OTTI in earnings during 2010 and 2009, respectively. There was no OTTI recorded during 2008.

The term "other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a general lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. See Note 4- "Investment Securities" to the Financial Statements for a discussion of the Company's evaluation and subsequent charges for OTTI.

Deposits

Funding of the Company's earning assets is substantially provided by a combination of consumer, commercial and public fund deposits. The Company continues to focus its strategies and emphasis on retail core deposits, the major component of funding sources. The following table sets forth the average deposits and weighted average rates for 2010, 2009 and 2008 (dollars in thousands):

	2010		2009		2008	
		Weighted		Weighted		Weighted
	Average	Average	Average	Average	Average	Average
	Balance	Rate	Balance	Rate	Balance	Rate
Demand deposits:						
Non-interest bearing	$142,125	-	$119,537	-	$119,764	-
Interest bearing	421,743	.76 %	332,751	1.26 %	288,057	1.26 %
Savings	165,337	.77 %	109,305	.92 %	74,236	.92 %
Time deposits	243,606	1.64 %	301,987	3.91 %	313,729	3.91 %
Total average deposits	$972,811	.87 %	$863,580	2.08 %	$795,786	2.08 %

	December 31,		
(dollars in thousands)	2010	2009	2008
High month-end balances of total deposits	$1,227,528	$906,853	$810,756
Low month-end balances of total deposits	842,653	831,157	777,337

In 2010, the average balance of deposits increased by $109.2 million from 2009. The increase was primarily attributable to the addition of $337 million of deposits assumed in the branch acquisition offset by decreases in higher rate time deposits. Average non-interest bearing deposits increased by $22.6 million, average money market account balances increased by $64.8 million, average savings account balances increased by $56 million and average NOW account balances increased by $24.2 million offset by a decline in consumer CD balances. In 2009, the average balance of deposits increased by $67.8 million from 2008. The increase was primarily attributable to increases in money market and savings account balances. Average non-interest bearing deposits decreased by $.2 million, average money market account balances increased by $35.3 million, and average NOW account balances increased by $4.4 million offset by a decline in consumer CD balances.

The following table sets forth the maturity of time deposits of $100,000 or more (in thousands):

	December 31,		
	2010	2009	2008
3 months or less	$31,277	$24,951	$24,922
Over 3 through 6 months	14,430	8,622	18,189
Over 6 through 12 months	24,906	29,852	61,421
Over 12 months	18,315	18,267	24,865
Total	$88,928	$81,692	$129,397

The balance of time deposits of $100,000 or more increased $7.2 million from December 31, 2009 to December 31, 2010. The increase in balances was primarily attributable to time deposits acquired in the branch acquisition. The balance of time deposits of $100,000 or more decreased $47.7 million from December 31, 2008 to December 31,

2009. The decrease in balances was primarily attributable to a decrease in consumer time deposits.

In 2010, the Company's significant deposits included brokered CDs and deposit relationships with various public entities. As of December 31, 2010, the Company had one brokered CD which totaled $5 million. In addition, the Company maintains account relationships with various public entities throughout its market areas. Four public entities had total balances of $31.2 million in various checking accounts and time deposits as of December 31, 2010. These balances are subject to change depending upon the cash flow needs of the public entity.

Repurchase Agreements and Other Borrowings

Securities sold under agreements to repurchase are short-term obligations of First Mid Bank. First Mid Bank collateralizes these obligations with certain government securities that are direct obligations of the United States or one of its agencies. First Mid Bank offers these retail repurchase agreements as a cash management service to its corporate customers. Other borrowings consist of Federal Home Loan Bank ("FHLB") advances, federal funds purchased, junior subordinated debentures and loans (short-term or long-term debt) that the Company has outstanding.

Information relating to securities sold under agreements to repurchase and other borrowings for the last three years is presented below (dollars in thousands):

	2010	2009	2008
At December 31:			
Securities sold under agreements to repurchase	$94,057	$80,386	$80,708
Federal Home Loan Bank advances:			
Fixed term – due in one year or less	3,000	10,000	5,000
Fixed term – due after one year	19,750	22,750	32,750
Junior subordinated debentures	20,620	20,620	20,620
Debt due after one year	-	-	13,000
Total	$137,428	$133,756	$152,078
Average interest rate at year end	1.81 %	2.10 %	3.16 %
Maximum Outstanding at Any Month-end			
Securities sold under agreements to repurchase	$94,530	$83,826	$80,708
Federal Home Loan Bank advances:			
Fixed term – due in one year or less	10,000	15,000	5,000
Fixed term – due after one year	22,750	32,750	37,750
Junior subordinated debentures	20,620	20,620	20,620
Debt due in one year or less	2,000	-	-
Debt due after one year	-	13,000	16,500
Averages for the Year			
Federal funds purchased	5	3	-
Securities sold under agreements to repurchase	76,758	72,589	61,108
Federal Home Loan Bank advances:			
Fixed term – due in one year or less	4,984	10,041	5,098
Fixed term – due after one year	21,109	26,134	36,275
Junior subordinated debentures	20,620	20,620	20,620
Debt due in one year or less	645	-	-
Debt due after one year	-	1,498	15,111
Total	$124,121	$130,885	$138,212
Average interest rate during the year	1.94 %	2.19 %	3.64 %

FHLB advances represent borrowings by First Mid Bank to economically fund loan demand. The fixed term advances consist of $22.75 million as follows:

- $3 million advance at 5.98% with a 10-year maturity, matured March 1, 2011
- $5 million advance at 4.82% with a 5-year maturity, due January 19, 2012, two year lockout, callable quarterly
- $5 million advance at 4.69% with a 5-year maturity, due February 23, 2012, two year lockout, callable quarterly
- $4.75 million advance at 1.60% with a 5-year maturity, due December 24, 2012

- $5 million advance at 4.58% with a 10-year maturity, due July 14, 2016, one year lockout, callable quarterly

At December 31, 2010 and 2009, there was no outstanding loan balance on a revolving credit agreement with The Northern Trust Company. This loan was renewed on April 23, 2010. The revolving credit agreement has a maximum available balance of $20 million with a term of one year from the date of closing. The interest rate (1.43% at December 31, 2010) is floating at 1.25% over the federal funds rate. The loan is unsecured and subject to a borrowing agreement containing requirements for the Company and First Mid Bank to maintain various operating and capital ratios. The Company and First Mid Bank were in compliance with all the existing covenants at December 31, 2010 and 2008. The Company was in compliance with all of the existing covenants at December 31, 2009 except the Company's return on assets ratio was .74% as of December 31, 2009 which was below the covenant ratio required at that date of .75%. The Company received a waiver from Northern Trust Company for this covenant as of December 31, 2009.

On February 27, 2004, the Company completed the issuance and sale of $10 million of floating rate trust preferred securities through Trust I, a statutory business trust and wholly-owned unconsolidated subsidiary of the Company, as part of a pooled offering. The Company established Trust I for the purpose of issuing the trust preferred securities. The $10 million in proceeds from the trust preferred issuance and an additional $310,000 for the Company's investment in common equity of the Trust, a total of $10,310 000, was invested in junior subordinated debentures of the Company. The underlying junior subordinated debentures issued by the Company to Trust I mature in 2034, bear interest at three-month London Interbank Offered Rate ("LIBOR") plus 280 basis points, reset quarterly, and are callable, at the option of the Company, at par on or after April 7, 2009. At December 31, 2010 and 2009 the rate was 3.15% and 3.10%, respectively. The Company used the proceeds of the offering for general corporate purposes.

On April 26, 2006, the Company completed the issuance and sale of $10 million of fixed/floating rate trust preferred securities through Trust II, a statutory business trust and wholly-owned unconsolidated subsidiary of the Company, as part of a pooled offering. The Company established Trust II for the purpose of issuing the trust preferred securities. The $10 million in proceeds from the trust preferred issuance and an additional $310,000 for the Company's investment in common equity of Trust II, a total of $10,310 000, was invested in junior subordinated debentures of the Company. The underlying junior subordinated debentures issued by the Company to Trust II mature in 2036, bear interest at a fixed rate of 6.98% (three-month LIBOR plus 160 basis points) paid quarterly and convert to floating rate (LIBOR plus 160 basis points) after June 15, 2011. The net proceeds to the Company were used for general corporate purposes, including the Company's acquisition of Mansfield.

The trust preferred securities issued by Trust I and Trust II are included as Tier 1 capital of the Company for regulatory capital purposes. On March 1, 2005, the Federal Reserve Board adopted a final rule that allows the continued limited inclusion of trust preferred securities in the calculation of Tier 1 capital for regulatory purposes. The final rule provided a five-year transition period, ending September 30, 2009, for application of the revised quantitative limits. On March 17, 2009, the Federal Reserve Board adopted an additional final rule that delayed the effective date of the new limits on inclusion of trust preferred securities in the calculation of Tier 1 capital until September 30, 2011. The Company does not expect the application of the revised quantitative limits to have a significant impact on its calculation of Tier 1 capital for regulatory purposes or its classification as well-capitalized. Additionally, as discussed above under "Dodd-Frank Wall Street Reform and Consumer Protection Act," the existing trust preferred securities issued by Trust I and Trust II will continue to count as Tier 1 capital.

Interest Rate Sensitivity

The Company seeks to maximize its net interest margin while maintaining an acceptable level of interest rate risk. Interest rate risk can be defined as the amount of forecasted net interest income that may be gained or lost due to changes in the interest rate environment, a variable over which management has no control. Interest rate risk, or sensitivity, arises when the maturity or repricing characteristics of assets differ significantly from the maturity or repricing characteristics of liabilities.

The Company monitors its interest rate sensitivity position to maintain a balance between rate-sensitive assets and rate-sensitive liabilities. This balance serves to limit the adverse effects of changes in interest rates. The Company's asset/liability management committee (ALCO) oversees the interest rate sensitivity position and directs the overall allocation of funds.

In the banking industry, a traditional way to measure potential net interest income exposure to changes in interest rates is through a technique known as "static GAP" analysis which measures the cumulative differences between the amounts of assets and liabilities maturing or repricing at various intervals. By comparing the volumes of interest-bearing assets and liabilities that have contractual maturities and repricing points at various times in the future, management can gain insight into the amount of interest rate risk embedded in the balance sheet.

The following table sets forth the Company's interest rate repricing gaps for selected maturity periods at December 31, 2010 (dollars in thousands):

	Rate Sensitive Within							
	1 year	1-2 years	2-3 years	3-4 years	4-5 years	Thereafter	Total	Fair Value
Interest-earning assets:								
Federal funds sold and other interest-bearing deposits	$210,485	$-	$-	$-	$-	$-	$210,485	$210,485
Certificates of deposit investments	10,000	-	-	-	-	-	10,000	9,996
Taxable investment securities	35,269	20,226	21,174	19,825	26,005	193,403	315,902	315,902
Nontaxable investment securities	307	259	541	541	583	24,733	26,964	26,967
Loans	413,381	124,968	166,966	51,699	32,065	15,502	804,581	809,546
Total	$669,442	$145,453	$188,681	$72,065	$58,653	$233,638	$1,367,932	$1,372,896
Interest-bearing liabilities:								
Savings and N.O.W. accounts	$102,903	$23,500	$24,357	$33,788	$34,747	$205,086	$424,381	$424,381
Money market accounts	264,016	1,961	2,015	2,614	2,669	14,107	287,382	287,382
Other time deposits	256,044	31,217	15,023	5,345	9,033	353	317,015	318,330
Short-term borrowings/debt	94,057	-	-	-	-	-	94,057	94,058
Long-term borrowings/debt	13,310	14,750	10,310	-	-	5,000	43,370	35,391
Total	$730,330	$71,428	$51,705	$41,747	$46,449	$224,546	$1,166,205	$1,159,542
Rate sensitive assets – rate sensitive liabilities	$(60,888)	$74,025	$136,976	$30,318	$12,204	$9,092	$201,727	
Cumulative GAP	$(60,888)	$13,137	$150,113	$180,431	$192,635	$201,727		
Cumulative amounts as % of total rate sensitive assets	-4.5 %	5.4 %	10.0 %	2.2 %	0.9 %	0.7 %		

Cumulative Ratio	-4.5 %	1.0 %	11.0 %	13.2 %	14.1 %	14.7 %

The static GAP analysis shows that at December 31, 2010, the Company was liability sensitive, on a cumulative basis, through the twelve-month time horizon. This indicates that future increases in interest rates, if any, could have an adverse effect on net interest income. Conversely, future decreases in interest rates could have a positive effect on net interest income. There are several ways the Company measures and manages the exposure to interest rate sensitivity, static GAP analysis being one. The Company's ALCO also uses other financial models to project interest income under various rate scenarios and prepayment/extension assumptions consistent with First Mid Bank's historical experience and with known industry trends. ALCO meets at least monthly to review the Company's exposure to interest rate changes as indicated by the various techniques and to make necessary changes in the composition terms and/or rates of the assets and liabilities. Based on all information available, management does not believe that changes in interest rates which might reasonably be expected to occur in the next twelve months will have a material, adverse effect on the Company's net interest income.

Capital Resources

At December 31, 2010, stockholders' equity increased $1.0 million or .9% to $112,265,000 from $111,221,000 as of December 31, 2009. During 2010 net income contributed $8,761,000 to equity before the payment of dividends to stockholders. The change in the market value of available-for-sale investment securities decreased stockholders' equity by $2,530,000, net of tax. Additional purchases of treasury stock (136,380 shares at an average cost of $18.32 per share) decreased stockholders' equity by $2,499,000.

During 2009, the Company sold to certain accredited investors including directors, executive officers, and certain major customers and holders of the Company's common stock, $24,635,000, in the aggregate, of a newly authorized series of its preferred stock designated as Series B 9% Non-Cumulative Perpetual Convertible Preferred Stock. Additionally, on February 11, 2011, the Company accepted from certain accredited investors including directors, executive officers, and certain major customers and holders of the Company's common stock, subscriptions for the purchase of $27,500,000, in the aggregate, of a newly authorized series of its preferred stock designated as Series C 8% Non-Cumulative Perpetual Convertible Preferred Stock. On February 11, 2011, $11,010,000 of the Series C Preferred Stock was issued and sold by the Company to certain investors. The balance of the Series C Preferred Stock will be issued to the remaining investors upon the completion of the bank regulatory process applicable to their purchases. See "Preferred Stock" in Note 1 to consolidated financial statements for more detailed information.

Stock Plans

Deferred Compensation Plan

The Company follows the provisions of the Emerging Issues Task Force Issue No. 97-14, "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested" ("EITF 97-14"), which was codified into ASC 710, for purposes of the First Mid-Illinois Bancshares, Inc. Deferred Compensation Plan ("DCP"). At December 31, 2010, the Company classified the cost basis of its common stock issued and held in trust in connection with the DCP of approximately $2,928,000 as treasury stock. The Company also classified the cost basis of its related deferred compensation obligation of approximately $2,928,000 as an equity instrument (deferred compensation).

The DCP was effective as of June 1984. The purpose of the DCP is to enable directors, advisory directors, and key employees the opportunity to defer a portion of the fees and cash compensation paid by the Company as a means of maximizing the effectiveness and flexibility of compensation arrangements. The Company invests all participants' deferrals in shares of common stock. Dividends paid on the shares are credited to participants' DCP accounts and invested in additional shares. The Company issued, pursuant to DCP:

- 4,766 common shares during 2010
- 9,916 common shares during 2009
- 7,600 common shares during 2008.

First Retirement and Savings Plan

The First Retirement and Savings Plan ("401(k) plan") was effective beginning in 1985. Employees are eligible to participate in the 401(k) plan after six months of service with the Company. The Company offers common stock as an investment option for participants of the 401(k) plan. The Company issued, pursuant to the 401(k) plan:

- 19,414 common shares during 2010
- 19,000 common shares during 2009
- 7,161 common shares during 2008.

Dividend Reinvestment Plan

The Dividend Reinvestment Plan ("DRIP") was effective as of October 1994. The purpose of the DRIP is to provide participating stockholders with a simple and convenient method of investing cash dividends paid by the Company on its common and preferred shares into newly issued common shares of the Company. All holders of record of the Company's common or preferred stock are eligible to voluntarily participate in the DRIP. The DRIP is administered by Computershare Investor Services, LLC and offers a way to increase one's investment in the Company. Of the $2,314,000 in common stock dividends paid during 2010, $599,000 or 25.9% was reinvested into shares of common stock of the Company through the DRIP. Of the $2,217,000 in preferred stock dividends paid during 2010, $81,000 or 2.3% was reinvested into shares of common stock through the DRIP. Events that resulted in common shares being reinvested in the DRIP:

- During 2010, 33,879 common shares were issued from common stock dividends and 4,615 common shares were issued from preferred stock dividends
-

During 2009, 42,044 common shares were issued from common stock dividends and 2,617 common shares were issued from preferred stock dividends

- During 2008, 31,684 common shares were issued from common stock dividends.

Stock Incentive Plan

At the Annual Meeting of Stockholders held May 23, 2007, the stockholders approved the First Mid-Illinois Bancshares, Inc. 2007 Stock Incentive Plan ("SI Plan"). The SI Plan was implemented to succeed the Company's 1997 Stock Incentive Plan, which had a ten-year term that expired October 21, 2007. The SI Plan is intended to provide a means whereby directors, employees, consultants and advisors of the Company and its Subsidiaries may sustain a sense of proprietorship and personal involvement in the continued development and financial success of the Company and its Subsidiaries, thereby advancing the interests of the Company and its stockholders. Accordingly, directors and selected employees, consultants and advisors may be provided the opportunity to acquire shares of Common Stock of the Company on the terms and conditions established herein in the SI Plan. This SI Plan is more fully described in Note 15- "Stock Option Plan."

A maximum of 300,000 shares are authorized under the SI Plan. Options to acquire shares are awarded at an exercise price equal to the fair market value of the shares on the date of grant and have a 10-year term. Options granted to employees vest over a four-year period and options granted to directors vest at the time they are issued.

The Company has awarded the following stock options:

- The Company awarded no options during the years ended December 31, 2010 and 2009
- In December 2008, the Company awarded 27,500 options at an option price of $23.00

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R, Accounting for Stock-Based Compensation," which was codified into ASC 718, using the modified prospective application method. Accordingly, after January 1, 2006, the Company began expensing the fair value of stock options granted, modified, repurchased or cancelled. Additionally, compensation cost for a portion of the awards for which requisite services had not yet been rendered that were outstanding as of January 1, 2006 are being recognized as the requisite service is rendered. As a result of this adoption, the Company's income before income taxes and net income for the year ended December 31, 2010 includes stock option compensation cost of $52,000 and $51,000, respectively, which represents $.01 impact on basic and diluted earnings per share for the year. The Company's income before income taxes and net income for the year ended December 31, 2009 includes stock option compensation cost of $53,000 and $51,000, respectively, which represents $.01 impact on basic and diluted earnings per share for the year.

Stock Repurchase Program

Since August 5, 1998, the Board of Directors has approved repurchase programs pursuant to which the Company may repurchase a total of approximately $56.7 million of the Company's common stock. The repurchase programs approved by the Board of Directors are as follows:

- On August 5, 1998, repurchases of up to 3%, or $2 million, of the Company's common stock.
- In March 2000, repurchases up to an additional 5%, or $4.2 million of the Company's common stock.
- In September 2001, repurchases of $3 million of additional shares of the Company's common stock.
- In August 2002, repurchases of $5 million of additional shares of the Company's common stock.
- In September 2003, repurchases of $10 million of additional shares of the Company's common stock.
- On April 27, 2004, repurchases of $5 million of additional shares of the Company's common stock.
- On August 23, 2005, repurchases of $5 million of additional shares of the Company's common stock.
- On August 22, 2006, repurchases of $5 million of additional shares of the Company's common stock.
- On February 27, 2007, repurchases of $5 million of additional shares of the Company's common stock.
- On November 13, 2007, repurchases of $5 million of additional shares of the Company's common stock.
- On December 16, 2008, repurchases of $2.5 million of additional shares of the Company's common stock.
- On May 26, 2009, repurchases of $5 million of additional shares of the Company's common stock.

Subsequently, on February 22, 2011, the Company's Board of Directors authorized the repurchase of $5 million of additional shares of the Company's common stock bringing the total amount of common stock that the Company is authorized to repurchase on that date to approximately $5,918,000.

During 2010, the Company repurchased 136,380 shares (2.3% of common shares) at a total price of $2,499,000. During 2009, the Company repurchased 160,803 shares (2.6% of common shares) at a total price of $3,122,000. As of December 31, 2010, approximately $918,000 remains available for purchase under the repurchase programs. Treasury stock is further affected by activity in the DCP.

Capital Ratios

Minimum regulatory requirements for highly-rated banks that do not expect significant growth is 8% for the Total Capital to Risk-Weighted Assets ratio and 3% for the Tier 1 Capital to Average Assets ratio. The Company and First Mid Bank have capital ratios above the minimum regulatory capital requirements and, as of December 31, 2010, the Company and First Mid Bank had capital ratios above the levels required for categorization as well-capitalized under the capital adequacy guidelines established by the bank regulatory agencies.

A tabulation of the Company and First Mid Bank's capital ratios as of December 31, 2010 follows:

	Total Capital Ratio		Tier One Capital Ratio		Tier One Leverage Ratio (Capital to Average Assets)	
First Mid-Illinois Bancshares, Inc. (Consolidated)	12.84	%	11.71	%	7.42	%
First Mid-Illinois Bank & Trust, N.A.	12.32	%	11.19	%	7.07	%

Liquidity

Liquidity represents the ability of the Company and its subsidiaries to meet all present and future financial obligations arising in the daily operations of the business. Financial obligations consist of the need for funds to meet extensions of credit, deposit withdrawals and debt servicing. The Company's liquidity management focuses on the ability to obtain funds economically through assets that may be converted into cash at minimal costs or through other sources. The Company's other sources for cash include overnight federal fund lines, FHLB advances, deposits of the State of Illinois, the ability to borrow at the Federal Reserve Bank, and the Company's operating line of credit with The Northern Trust Company.
Details for the sources include:

- First Mid Bank has $35 million available in overnight federal fund lines, including $10 million from U.S. Bank, N.A., $10 million from Wells Fargo Bank, N.A. and $15 million from The Northern Trust Company. Availability of the funds is subject to the First Mid Bank's meeting minimum regulatory capital requirements for total capital to risk-weighted assets and Tier 1 capital to total assets. As of December 31, 2010, First Mid Bank met these regulatory requirements.

- In addition, the Company has a revolving credit agreement in the amount of $20 million with The Northern Trust Company. The Company had an outstanding balance of $0 with $20 million in available funds as of December 31, 2010. This loan was renewed on April 23, 2010. The revolving credit agreement has a maximum available balance of $20 million with a term of one year from the date of closing. The interest rate (1.43% at December 31, 2010) is floating at 1.25% over the federal funds rate. The loan is unsecured and subject to a borrowing agreement containing requirements for the Company and First Mid Bank to maintain various operating and capital ratios. The Company and First Mid Bank were in compliance with all the existing covenants at December 31, 2010. The Company was in compliance with all of the existing covenants at December 31, 2009 except the Company's return on assets ratio was .74% as of December 31, 2009 which was below the covenant ratio required of .75%. The Company received a waiver from Northern Trust Company for this covenant as of December 31, 2009.

- First Mid Bank can also borrow from the FHLB as a source of liquidity. Availability of the funds is subject to the pledging of collateral to the FHLB. Collateral that can be pledged includes one-to-four family residential real estate loans and securities. At December 31, 2010, the excess collateral at the FHLB could support approximately $61.3 million of additional advances.

- First Mid Bank is also a member of the Federal Reserve System and can borrow funds provided sufficient collateral is pledged.

Management monitors its expected liquidity requirements carefully, focusing primarily on cash flows from:

- lending activities, including loan commitments, letters of credit and mortgage prepayment assumptions;
- deposit activities, including seasonal demand of private and public funds;
- investing activities, including prepayments of mortgage-backed securities and call assumptions on U.S. Treasuries and agencies; and
- operating activities, including scheduled debt repayments and dividends to stockholders.

The following table summarizes significant contractual obligations and other commitments at December 31, 2010 (in thousands):

	Less than			More than

	Total	1 year	1-3 years	3-5 years	5 years
Time deposits	$317,015	$248,402	$48,427	$19,833	$353
Debt	20,620	-	-	-	20,620
Other borrowings	116,807	116,807	-	-	-
Operating leases	5,877	1,148	2,255	1,246	1,228
Supplemental retirement liability	913	50	200	200	463
	$461,232	$366,407	$50,882	$21,279	$22,664

For the year ended December 31, 2010, net cash of $7.5 million, $100.5 million and $33.0 million was provided from operating activities, investing activities and financing activities, respectively. In total, cash and cash equivalents increased by $141 million since year-end 2009. Generally, during 2010, the increase in cash balances was due to cash received related to the branch acquisition.

For the year ended December 31, 2009, net cash of $8.3 million and $35.4 million was provided from operating activities and financing activities, respectively and $30.6 million was used in investing activities. In total, cash and cash equivalents increased by $13.1 million since year-end 2008. Generally, during 2009, the increase in cash balances was due to an increase in interest-bearing deposits held by the Company and federal funds sold.

For the years ended December 31, 2010 and 2009, the Company also had issued $10 million of floating rate trust preferred securities through each of Trust I and Trust II. See Note 11 – “Borrowings” for a more detailed description.

Effects of Inflation

Unlike industrial companies, virtually all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a more significant impact on the Company's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or experience the same magnitude of changes as goods and services, since such prices are affected by inflation. In the current economic environment, liquidity and interest rate adjustments are features of the Company's assets and liabilities that are important to the maintenance of acceptable performance levels. The Company attempts to maintain a balance between monetary assets and monetary liabilities, over time, to offset these potential effects.

Adoption of New Accounting Guidance

Accounting Standards Update (ASU) 2010-6 — Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. The ASU amends Subtopic 820-10 with new disclosure requirements and clarification of existing disclosure requirements. New disclosures required include the amount of significant transfers in and out of levels 1 and 2 fair value measurements and the reasons for the transfers. In addition, the reconciliation for level 3 activity is required on a gross rather than net basis. The ASU provides additional guidance related to the level of disaggregation in determining classes of assets and liabilities and disclosures about inputs and valuation techniques. The amendments were effective for annual or interim reporting periods beginning after December 15, 2009, except for the requirement to provide the reconciliation for level 3 activity on a gross basis which will was effective for fiscal years beginning after December 15, 2010, and are reflected in Note 13 of Notes to Consolidated Financial Statements.

Accounting Standards Update (ASU) 2010-20 — Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. The ASU requires expanded disclosure about the credit quality of the loan portfolio in the notes to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disclosures related to period-end balances are effective for annual or interim reporting periods ending after December 15, 2010 and the disclosures of activity that occurs during the reporting period are effective for annual or interim reporting periods beginning after December 15, 2010. The Financial Accounting Standards Board ("FASB") has elected to defer the disclosures related to troubled debt restructurings ("TDRs") included within ASU No. 2010-20. The disclosures related to TDRs are expected to be effective for the second quarter 2011. The remaining disclosures under ASU No. 2010-20 were not deferred and are included in Notes 5 and 6 of Notes to Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's market risk arises primarily from interest rate risk inherent in its lending, investing and deposit taking activities, which are restricted to First Mid Bank. The Company does not currently use derivatives to manage market or interest rate risks. For a discussion of how management of the Company addresses and evaluates interest rate risk see also "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Interest Rate Sensitivity."

Based on the financial analysis performed as of December 31, 2010, which takes into account how the specific interest rate scenario would be expected to impact each interest-earning asset and each interest-bearing liability, the Company estimates that changes in the prime interest rate would impact First Mid Bank's performance as follows:

	Increase (Decrease) In		
	Net Interest	Net Interest	Return On
December 31, 2010	Income	Income	Average Equity
Prime rate is 3.25%	$(000)	(%)	2010=7.92%
Prime rate increase of:			
200 basis points to 5.25%	$(591)	(1.9)%	(.42)%
100 basis points to 4.25%	(316)	(1.0)%	(.23)%
Prime rate decrease of:			
200 basis points to 2.25%	(1,607)	(5.2)%	(1.16)%
100 basis points to 1.25%	(553)	(1.8)%	(.40)%

The following table shows the same analysis performed as of December 31, 2009:

	Increase (Decrease) In		
	Net Interest	Net Interest	Return On
December 31, 2009	Income	Income	Average Equity
Prime rate is 3.25%	$(000)	(%)	2009=8.47%
Prime rate increase of:			
200 basis points to 5.25%	$(1,406)	(5.5)%	(1.13)%
100 basis points to 4.25%	(764)	(3.0)%	(.61)%
Prime rate decrease of:			
200 basis points to 2.25%	(1,191)	(4.6)%	(.96)%
100 basis points to 1.25%	(242)	(.9)%	(.19)%

First Mid Bank's Board of Directors has adopted an interest rate risk policy that establishes maximum decreases in the percentage change in net interest income of 5% in a 100 basis point rate shift and 10% in a 200 basis point rate shift.

No assurance can be given that the actual net interest income would increase or decrease by such amounts in response to a 100 or 200 basis point increase or decrease in the prime rate because it is also affected by many other factors. The results above are based on one-time “shock” moves and do not take into account any management response or mitigating action.

Interest rate sensitivity analysis is also used to measure the Company’s interest risk by computing estimated changes in the Economic Value of Equity (EVE) of First Mid Bank under various interest rate shocks. EVE is determined by calculating the net present value of each asset and liability category by rate shock. The net differential between assets and liabilities is the Economic Value of Equity. EVE is an expression of the long-term interest rate risk in the balance sheet as a whole.

The following table presents First Mid Bank's projected change in EVE for the various rate shock levels at December 31, 2010 and 2009 (in thousands). All market risk sensitive instruments presented in the tables are held-to-maturity or available-for-sale. First Mid Bank has no trading securities.

	Changes In Interest Rates (basis points)		Change in Economic Value of Equity: Amount of Change ($000)		Percent of Change	
December 31, 2010	+200	bp	$11,901		5.4	%
	+100	bp	6,902		3.1	%
	-200	bp	(41,202	)	(18.7	)%
	-100	bp	(17,266	)	(7.8	)%
December 31, 2009	+200	bp	$3,670		1.7	%
	+100	bp	3,530		1.7	%
	-200	bp	(24,633	)	(11.7	)%
	-100	bp	(11,941	)	(5.7	)%

As indicated above, at December 31, 2010, in the event of a sudden and sustained increase in prevailing market interest rates, First Mid Bank's EVE would be expected to increase, and in the event of a sudden and sustained decrease in prevailing market interest rates, First Mid Bank's EVE would be expected to decrease. At December 31, 2010, First Mid Bank's estimated changes in EVE were within the First Mid Bank's policy guidelines that normally allow for a change in capital of +/-10% from the base case scenario under a 100 basis point shock and +/- 20% from the base case scenario under a 200 basis point shock.

Computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and declines in deposit balances, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions First Mid Bank may undertake in response to changes in interest rates.

Certain shortcomings are inherent in the method of analysis presented in the computation of EVE. Actual values may differ from those projections set forth in the table, should market conditions vary from assumptions used in the preparation of the table. Certain assets, such as adjustable-rate loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. In addition, the proportion of adjustable-rate loans in First Mid Bank's portfolio change in future periods as market rates change. Further, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in the table. Finally, the ability of many borrowers to repay their adjustable-rate debt may decrease in the event of an interest rate increase.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Balance Sheets		
December 31, 2010 and 2009		
(In thousands, except share data)	2010	2009
Assets		
Cash and due from banks		
Non-interest bearing	$21,008	$20,243
Interest bearing	130,485	10,168
Federal funds sold	80,000	60,000
Cash and cash equivalents	231,493	90,411
Certificates of deposit investments	10,000	9,344
Investment securities:		
Available-for-sale, at fair value	342,816	238,697
Held-to-maturity, at amortized cost (estimated fair value of $53 and $469 at December 31, 2010 and 2009, respectively)	50	459
Loans held for sale	114	149
Loans	804,467	700,601
Less allowance for loan losses	(10,393)	(9,462)
Net loans	794,074	691,139
Interest receivable	6,390	6,871
Other real estate owned	6,127	2,862
Premises and equipment, net	28,544	15,487
Goodwill, net	25,753	17,363
Intangible assets, net	5,068	2,832
Other assets	17,816	19,541
Total assets	$1,468,245	$1,095,155
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest bearing	$183,932	$128,726
Interest bearing	1,028,778	711,684
Total deposits	1,212,710	840,410
Securities sold under agreements to repurchase	94,057	80,386
Interest payable	701	861
FHLB borrowings	22,750	32,750
Junior subordinated debentures	20,620	20,620
Other liabilities	5,142	8,907
Total liabilities	1,355,980	983,934
Stockholders' Equity		
Preferred stock, no par value, authorized 1,000,000 shares; issued 4,927 shares in 2010 and 2009	24,635	24,635
Common stock, $4 par value; authorized 18,000,000 shares; issued 7,477,132 shares in 2010 and 7,364,959 shares in 2009	29,909	29,460
Additional paid-in capital	28,223	26,811
Retained earnings	66,356	62,144
Deferred compensation	2,929	2,894
Accumulated other comprehensive income (loss)	(2,066)	464
Less treasury stock at cost, 1,418,456 shares in 2010 and 1,282,076 shares in 2009	(37,721)	(35,187)
Total stockholders' equity	112,265	111,221

Total liabilities and stockholders' equity	$1,468,245	$1,095,155

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income			
For the years ended December 31, 2010, 2009 and 2008			
(In thousands, except per share data)	2010	2009	2008
Interest income:			
Interest and fees on loans	$41,803	$42,146	$47,748
Interest on investment securities:			
Taxable	8,329	8,073	7,725
Exempt from federal income tax	370	963	834
Interest on certificates of deposit investments	110	55	-
Interest on federal funds sold	85	66	336
Interest on deposits with other financial institutions	186	106	423
Total interest income	50,883	51,409	57,066
Interest expense:			
Interest on deposits	8,471	12,970	16,592
Interest on securities sold under agreements to repurchase	133	129	872
Interest on FHLB advances	1,090	1,612	1,991
Interest on other borrowings	9	22	493
Interest on subordinated debt	1,053	1,104	1,396
Total interest expense	10,756	15,837	21,344
Net interest income	40,127	35,572	35,722
Provision for loan losses	3,737	3,594	3,559
Net interest income after provision for loan losses	36,390	31,978	32,163
Other income:			
Trust revenues	2,601	2,229	2,666
Brokerage commissions	536	424	574
Insurance commissions	1,779	1,912	1,978
Service charges	4,662	4,952	5,571
Securities gains, net	543	637	293
Total other-than-temporary impairment losses on securities	(2,829)	(2,465)	-
Portion of loss recognized in other comprehensive loss (before taxes)	1,411	653	-
Other-than-temporary impairment losses recognized in earnings	(1,418)	(1,812)	-
Gain on sale of merchant banking portfolio	-	1,000	-
Mortgage banking revenue, net	776	664	437
ATM / debit card income	2,869	2,333	2,147
Other	1,472	1,116	1,598
Total other income	13,820	13,455	15,264
Other expense:			
Salaries and employee benefits	18,649	16,830	16,876
Net occupancy and equipment expense	5,851	4,989	4,959
Net other real estate owned expense	1,076	470	234
FDIC insurance expense	1,508	1,943	158
Amortization of other intangible assets	814	730	766
Stationery and supplies	610	563	557
Legal and professional	2,361	2,021	1,820
Marketing and promotion	940	963	847
Other	5,118	4,703	5,243
Total other expense	36,927	33,212	31,460
Income before income taxes	13,283	12,221	15,967

Income taxes	4,522	4,007	5,443
Net income	$8,761	$8,214	$10,524
Dividends on preferred shares	2,240	1,821	-
Net income available to common stockholders	$6,521	$6,393	$10,524
Per common share data:			
Basic earnings per share	$1.07	$1.04	$1.69
Diluted earnings per share	1.07	1.04	1.67
Cash dividends per share	.38	.38	.38

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity
For the years ended December 31, 2010, 2009 and 2008
(In thousands, except share and per share data)

	Preferred Stock	Common Stock	Additional Paid-In-Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
December 31, 2007	$-	$28,540	$ 23,308	$49,895	$ 2,568	$ 1,096	$(24,955)	$80,452
Comprehensive income:								
Net income	-	-	-	10,524	-	-	-	10,524
Net unrealized change in available-for-sale investment securities	-	-	-	-	-	(1,512)	-	(1,512)
Total Comprehensive Income	-							9,012
Cash dividends on common stock ($.38 per share)	-	-	-	(2,360)	-	-	-	(2360)
Issuance of 31,684 common shares pursuant to the Dividend Reinvestment Plan	-	127	697	-	-	-	-	824
Issuance of 7,600 common shares pursuant to the Deferred Compensation Plan	-	31	158	-	-	-	-	189
Issuance of 7,161 common shares pursuant to the First Retirement & Savings Plan	-	29	145	-	-	-	-	174
Purchase of 262,877 treasury shares	-	-	-	-	-	-	(6,784)	(6,784)
Deferred compensation	-	-	-	-	219	-	(219)	-
Tax benefit related to deferred compensation	-	-	34	-	-	-	-	34

distributions								
Issuance of 72,559 common shares pursuant to the exercise of stock options	-	290	483	-	-	-	-	773
Tax benefit related to exercise of incentive stock options	-	-	263	-	-	-	-	263
Tax benefit related to exercise of non-qualified stock options	-	-	143	-	-	-	-	143
Vested stock options compensation expense	-	-	58	-	-	-	-	58
December 31, 2008	$-	$29,017	$ 25,289	$58,059	$ 2,787	$ (416)	$(31,958)	$82,778
Comprehensive income:								
Net income	-	-	-	8,214	-	-	-	8,214
Net unrealized change in available-for-sale investment securities	-	-	-	-	-	880	-	880
Total Comprehensive Income								9,094
Cash dividends on preferred stock ($370 per share)	-	-	-	(1,821)	-	-	-	(1,821)
Cash dividends on common stock ($.38 per share)	-	-	-	(2,308)	-	-	-	(2,308)
Issuance of 4,927 shares of preferred stock	24,635	-	-	-	-	-	-	24,635
Issuance of 44,661 common shares pursuant to the Dividend Reinvestment Plan	-	179	674	-	-	-	-	853
Issuance of 9,916 common shares pursuant to the Deferred Compensation Plan	-	40	136	-	-	-	-	176
Issuance of 19,000 common shares pursuant to the First Retirement &	-	75	255	-	-	-	-	330

Savings Plan								
Purchase of 160,803 treasury shares	-	-	-	-	-	-	(3,122)	(3,122)
Deferred compensation	-	-	-	-	107	-	(107)	-
Tax benefit related to deferred compensation distributions	-	-	67	-	-	-	-	67
Issuance of 37,266 common shares pursuant to the exercise of stock options	-	149	239	-	-	-	-	388
Tax benefit related to exercise of incentive stock options	-	-	19	-	-	-	-	19
Tax benefit related to exercise of non-qualified stock options	-	-	79	-	-	-	-	79
Vested stock options compensation expense	-	-	53	-	-	-	-	53
December 31, 2009	$24,635	$29,460	$ 26,811	$62,144	$ 2,894	$ 464	$(35,187)	$111,221

Consolidated Statements of Changes in Stockholders' Equity
For the years ended December 31, 2010, 2009 and 2008

(In thousands, except share and per share data)	Preferred Stock	Common Stock	Additional Paid-In-Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
December 31, 2009	$24,635	$29,460	$ 26,811	$62,144	$ 2,894	$ 464	$(35,187)	$111,221
Comprehensive income:								
Net income	-	-	-	8,761	-	-	-	8,761
Net unrealized change in available-for-sale investment securities	-	-	-	-	-	(2,530)	-	(2,530)
Total Comprehensive Income								6,231
Cash dividends on preferred stock ($455 per share)	-	-	-	(2,240)	-	-	-	(2,240)
Cash dividends on common stock ($.38 per share)	-	-	-	(2,309)	-	-	-	(2,309)
Issuance of 38,494 common shares pursuant to the Dividend Reinvestment Plan	-	154	526	-	-	-	-	680
Issuance of 4,766 common shares pursuant to the Deferred Compensation Plan	-	19	63	-	-	-	-	82
Issuance of 19,414 common shares pursuant to the First Retirement & Savings Plan	-	78	264	-	-	-	-	342
Purchase of 136,380 treasury shares	-	-	-	-	-	-	(2,499)	(2,499)
	-	-	-	-	35	-	(35)	-

Deferred compensation								
Tax benefit related to deferred compensation distributions	-	-	33	-	-	-	-	33
Issuance of 49,500 common shares pursuant to the exercise of stock options	-	198	349	-	-	-	-	547
Tax benefit related to exercise of incentive stock options	-	-	80	-	-	-	-	80
Tax benefit related to exercise of non-qualified stock options	-	-	45	-	-	-	-	45
Vested stock options compensation expense	-	-	52	-	-	-	-	52
December 31, 2010	$24,635	$29,909	$ 28,223	$66,356	$ 2,929	$ (2,066)	$(37,721)	$112,265

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows			
For the years ended December 31, 2010, 2009 and 2008			
(In thousands)	2010	2009	2008
Cash flows from operating activities:			
Net income	$8,761	$8,214	$10,524
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	3,737	3,594	3,559
Depreciation, amortization and accretion, net	3,938	3,070	2,234
Compensation expense for vested stock options	52	53	58
Gain on investment securities, net	(543)	(637)	(293)
Other-than-temporary impairment losses on securities recognized in earnings	1,418	1,812	-
(Gain) loss on sales of other real property owned, net	(12)	353	153
Loss on write down of fixed assets	4	80	132
Gain on sale of merchant banking portfolio	-	(1,000)	-
Gain on sales of loans held for sale, net	(813)	(727)	(520)
Deferred income taxes	(435)	(1,515)	(631)
Decrease in accrued interest receivable	968	290	1,148
Decrease in accrued interest payable	(386)	(755)	(648)
Origination of loans held for sale	(63,924)	(62,904)	(44,103)
Proceeds from sales of loans held for sale	64,772	64,019	46,060
Increase in other assets	(5,955)	(7,145)	(2,467)
Increase (decrease) in other liabilities	(4,074)	1,522	24
Net cash provided by operating activities	7,508	8,324	15,230
Cash flows from investing activities:			
Proceeds from maturities of certificates of deposit investments	10,605	1,992	-
Purchase of certificates of deposits investments	(11,261)	(11,336)	-
Proceeds from sales of securities available-for-sale	10,936	38,275	2,322
Proceeds from maturities of securities available-for-sale	107,525	63,321	90,439
Proceeds from maturities of securities held-to-maturity	995	140	580
Purchases of securities available-for-sale	(229,482)	(171,440)	(80,243)
Net decrease in loans	26,445	39,081	2,696
Purchases of premises and equipment	(1,935)	(1,954)	(1,082)
Proceeds from sales of other real property owned	6,634	1,987	1,100
Cash received related to acquisition, net of cash and cash equivalents acquired	180,074	-	-
Net cash provided by (used in) investing activities	100,536	(39,934)	15,812
Cash flows from financing activities:			
Net increase in deposits	34,745	34,056	35,771
Increase (decrease)in repurchase agreements	13,671	(322)	12,408
Repayment of short-term FHLB advances	-	-	(10,000)
Repayment of long-term FHLB advances	(10,000)	(5,000)	(5,000)
Proceeds from long-term debt	4,000	-	5,000
Repayment of long-term debt	(4,000)	(13,000)	(6,500)
Proceeds from issuance of common stock	971	894	1,136
Proceeds from issuance of preferred stock	-	24,635	-
Purchase of treasury stock	(2,499)	(3,122)	(6,784)

Dividends paid on preferred stock	(2,136)	(1,242)	-
Dividends paid on common stock	(1,714)	(1,521)	(1,553)
Net cash provided by financing activities	33,038	35,378	24,478
Increase in cash and cash equivalents	141,082	3,768	55,520
Cash and cash equivalents at beginning of year	90,411	86,643	31,123
Cash and cash equivalents at end of year	$231,493	$90,411	$86,643

	2010	2009	2008
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	$10,916	$16,592	$21,992
Income taxes	6,848	4,596	6,086
Supplemental disclosure of noncash investing and financing activities:			
Loans transferred to real estate owned	$9,897	$2,847	$2,900
Dividends reinvested in common shares	680	853	824
Net tax benefit related to option and deferred compensation plans	158	165	440

See accompanying notes to consolidated financial statements.

Notes To Consolidated Financial Statements
December 31, 2010, 2009 and 2008
(Table dollar amounts in thousands, except share data)

Note 1 – Summary of Significant Accounting Policies

Basis of Accounting and Consolidation

The accompanying consolidated financial statements include the accounts of First Mid-Illinois Bancshares, Inc. ("Company") and its wholly-owned subsidiaries: Mid-Illinois Data Services, Inc. ("MIDS"), First Mid-Illinois Bank & Trust, N.A. ("First Mid Bank") and The Checkley Agency, Inc. doing business as First Mid Insurance Group ("First Mid Insurance"). All significant intercompany balances and transactions have been eliminated in consolidation. Certain amounts in the prior years' consolidated financial statements have been reclassified to conform to the 2010 presentation and there was no impact on net income or stockholders' equity from these reclassifications. The Company operates as a one-segment entity for financial reporting purposes. The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America. Following is a description of the more significant of these policies.

Current Economic Conditions

The current protracted economic decline continues to present financial institutions with circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair values of investments and other assets, constraints on liquidity and capital and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. The accompanying financial statements have been prepared using values and information currently available to the Company. Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses and capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity.

At December 31, 2010, the Company held $302.2 million in commercial real estate loans and $20.4 million in construction and land development loans. Due to national, state and local economic conditions, values for commercial and development real estate have declined, and the market for these properties is depressed. Also, at December 31, 2010, the Company held $58.2 million in agricultural production loans and $65 million in agricultural real estate loans.

In addition, the Company had $49.7 million of loans in the hospitality (motels and hotels) industry. Due to national, state and local economic conditions, values for commercial real estate and, specifically hotel properties, have declined and the market for these properties is depressed. The performance of these loans is also dependent on borrower specific issues as well as the general level of business and personal travel within the region. The Company also had $87.2 million of loans to lessors of non-residential buildings and $49.5 million of loans to lessors of residential buildings and dwellings. Due to national, state and local economic conditions, values for commercial real estate have declined and the market for these properties is also depressed.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company uses estimates and employs the judgments of management in determining the amount of its allowance for loan losses and income tax accruals and deferrals, in its fair value measurements of investment securities, and in the evaluation of impairment of loans, goodwill, investment securities, and fixed assets. As with any estimate, actual results could differ from these estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties.

Fair Value Measurements

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The Company estimates the fair value of a financial instrument using a variety of valuation methods. Where financial instruments are actively traded and have quoted market prices, quoted market prices are used for fair value. When the financial instruments are not actively traded, other observable market inputs, such as quoted prices of securities with similar characteristics, may be used, if available, to determine fair value. When observable market prices do not exist, the Company estimates fair value. The Company’s valuation methods consider factors such as liquidity and concentration concerns. Other factors such as model assumptions, market dislocations, and unexpected correlations can affect estimates of fair value. Imprecision in estimating these factors can impact the amount of revenue or loss recorded.

SFAS No. 157, Fair Value Measurements, which was codified into ASC 820, establishes a framework for measuring the fair value of financial instruments that considers the attributes specific to particular assets or liabilities and establishes a three-level hierarchy for determining fair value based on the transparency of inputs to each valuation as of the fair value measurement date. The three levels are defined as follows:

- Level 1 — quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 — inputs include quoted prices for similar assets and liabilities in active markets, quoted prices of identical or similar assets or liabilities in markets that are not active, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 — inputs that are unobservable and significant to the fair value measurement.

At the end of each quarter, the Company assesses the valuation hierarchy for each asset or liability measured. From time to time, assets or liabilities may be transferred within hierarchy levels due to changes in availability of observable market inputs to measure fair value at the measurement date. Transfers into or out of hierarchy levels are based upon the fair value at the beginning of the reporting period. A more detailed description of the fair values measured at each level of the fair value hierarchy can be found in Note 13 – "Disclosures of Fair Values of Financial Instruments."

Cash and Cash Equivalents

For purposes of reporting cash flows, cash equivalents include non-interest bearing and interest bearing cash and due from banks and federal funds sold. Generally, federal funds are sold for one-day periods.

Certificates of Deposit Investments

Certificates of deposit investments have original maturities of six to twelve months and are carried at cost.

Investment Securities

The Company classifies its investments in debt and equity securities as either held-to-maturity or available-for-sale in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which was codified into ASC 320. Securities classified as held-to-maturity are recorded at cost or amortized cost. Available-for-sale securities are carried at fair value. Fair value calculations are based on quoted market prices when such prices are available. If quoted market prices are not available, estimates of fair value are computed using a variety of techniques, including extrapolation from the quoted prices of similar instruments or recent trades for thinly traded securities, fundamental analysis, or through obtaining purchase quotes. Due to the subjective nature of the valuation process, it is possible that the actual fair values of these investments could differ from the estimated amounts, thereby affecting the financial position, results of operations and cash flows of the Company. If the estimated value of investments is less than the cost or amortized cost, the Company evaluates whether an event or change in circumstances has occurred that may have a significant adverse effect on the fair value of the investment. If such an event or change has occurred and the Company determines that the impairment is other-than-temporary, a further determination is made as to the portion of impairment that is related to credit loss. The impairment of the investment that is related to the credit loss is expensed in the period in which the event or change occurred. The remainder of the impairment is recorded in other comprehensive income.

Loans

Loans are stated at the principal amount outstanding net of unearned discounts, unearned income and the allowance for loan losses. Unearned income includes deferred loan origination fees reduced by loan origination costs and is amortized to interest income over the life of the related loan using methods that approximate the effective interest rate method. Interest on substantially all loans is credited to income based on the principal amount outstanding.

The Company's policy is to discontinue the accrual of interest income on any loan that becomes ninety days past due as to principal or interest or earlier when, in the opinion of management there is reasonable doubt as to the timely collection of principal or interest. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collectibility of interest or principal.

Loans expected to be sold are classified as held for sale in the consolidated financial statements and are recorded at the lower of aggregate cost or market value, taking into consideration future commitments to sell the loans.

Allowance for Loan Losses

The Company believes the allowance for loan losses is the critical accounting policy that requires the most significant judgments and assumptions used in the preparation of its consolidated financial statements. An estimate of potential losses inherent in the loan portfolio is determined and an allowance for those losses is established by considering factors including historical loss rates, expected cash flows and estimated collateral values. In assessing these factors, the Company use organizational history and experience with credit decisions and related outcomes. The allowance for loan losses represents the best estimate of losses inherent in the existing loan portfolio. The allowance for loan losses is increased by the provision for loan losses charged to expense and reduced by loans charged off, net of recoveries. The Company evaluates the allowance for loan losses quarterly. If the underlying assumptions later prove to be inaccurate based on subsequent loss evaluations, the allowance for loan losses is adjusted.

The Company estimates the appropriate level of allowance for loan losses by separately evaluating impaired and nonimpaired loans. A specific allowance is assigned to an impaired loan when expected cash flows or collateral do not justify the carrying amount of the loan. The methodology used to assign an allowance to a nonimpaired loan is more subjective. Generally, the allowance assigned to nonimpaired loans is determined by applying historical loss rates to existing loans with similar risk characteristics, adjusted for qualitative factors including the volume and severity of identified classified loans, changes in economic conditions, changes in credit policies or underwriting standards, and changes in the level of credit risk associated with specific industries and markets. Because the economic and business climate in any given industry or market, and its impact on any given borrower, can change rapidly, the risk profile of the loan portfolio is continually assessed and adjusted when appropriate. Notwithstanding these procedures, there still exists the possibility that the assessment could prove to be significantly incorrect and that an immediate adjustment to the allowance for loan losses would be required.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is charged to expense and determined principally by the straight-line method over the estimated useful lives of the assets.

The estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings and improvements	20 - 40 years
Leasehold improvements	5-15 years
Furniture and equipment	3-7 years

Goodwill and Intangible Assets

The Company has goodwill from business combinations, identifiable intangible assets assigned to core deposit relationships and customer lists acquired, and intangible assets arising from the rights to service mortgage loans for others.

Identifiable intangible assets generally arise from branches acquired that the Company accounted for as purchases. Such assets consist of the excess of the purchase price over the fair value of net assets acquired, with specific amounts assigned to core deposit relationships and customer lists primarily related to insurance agency. Intangible assets are amortized by the straight-line method over various periods up to fifteen years. Management reviews intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

In accordance with the provisions of SFAS No. 142, “Goodwill and Other Intangible Assets,” codified into ASC 350, the Company performed testing of goodwill for impairment as of September 30, 2010 and determined that, as of that date, goodwill was not impaired. Management also concluded that the remaining amounts and amortization periods were appropriate for all intangible assets.

Other Real Estate Owned

Other real estate owned acquired through loan foreclosure is initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. The adjustment at the time of foreclosure is recorded through the allowance for loan losses. Due to the subjective nature of establishing the fair value when the asset is acquired, the actual fair value of the other real estate owned or foreclosed asset could differ from the original estimate. If it is determined that fair value temporarily declines subsequent to foreclosure, a valuation allowance is recorded through noninterest expense. Operating costs associated with the assets after acquisition are also recorded as noninterest expense. Gains and losses on the disposition of other real estate owned and foreclosed assets are netted and posted to other noninterest expense.

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula.

The Company owns approximately $3.7 million of Federal Home Loan Bank of Chicago (FHLB) stock included in other assets as of December 31, 2010 and 2009. During the third quarter of 2007, the FHLB received a Cease and Desist Order from its regulator, the Federal Housing Finance Board. The FHLB will continue to provide liquidity and funding through advances; however, the order prohibited capital stock repurchases until a time to be determined by the Federal Housing Finance Board and requires Federal Housing Finance Board approval for dividends. On July 24, 2008, the Federal Housing Finance Board amended the order to allow the FHLB to repurchase or redeem any capital stock issued to support new advances after the repayment of those new advances if certain conditions are met. The amended order, however, provides that the Director of the Office of Supervision of the Federal Housing Finance Board may direct the FHLB to halt the repurchase of redemption of capital stock if, in his sole discretion, the continuation of such transactions would be inconsistent with maintaining the capital adequacy of the FHLB and its safe and sound operations. With regard to dividends, the FHLB continues to assess its dividend capacity each quarter and make appropriate request for approval. There were no dividends paid by the FHLB during 2010 or 2009; however early in 2011 the FHLB announced they had declared a dividend at an annualized rate of 10 basis points per share paid on February 14, 2011. The Company evaluated its cost investment in FHLB stock and deemed it was ultimately recoverable.

Income Taxes

The Company and its subsidiaries file consolidated federal and state income tax returns with each organization computing its taxes on a separate company basis. Amounts provided for income tax expense are based on income reported for financial statement purposes rather than amounts currently payable under tax laws.

Deferred tax assets and liabilities are recognized for future tax consequences attributable to the temporary differences existing between the financial statement carrying amounts of assets and liabilities and their respective tax basis, as well as operating loss and tax credit carry forwards. To the extent that current available evidence about the future raises doubt about the realization of a deferred tax asset, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as an increase or decrease in income tax expense in the period in which such change is enacted.

Additionally, the Company reviews its uncertain tax positions annually under FASB Interpretation No. 48 (FIN No. 48), “Accounting for Uncertainty in Income Taxes,” codified within ASC 740. An uncertain tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount actually recognized is the largest amount of tax benefit that is greater than 50% likely to be recognized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. A significant amount of judgment is applied to determine both whether the tax position meets the "more likely than not" test as well as to determine the largest amount of tax benefit that is greater than 50% likely to be recognized. Differences between the position taken by management and that of taxing authorities could result in a reduction of a tax benefit or increase to tax liability, which could adversely affect future income tax expense.

Trust Department Assets

Assets held in fiduciary or agency capacities are not included in the consolidated balance sheets since such items are not assets of the Company or its subsidiaries. Fees from trust activities are recorded on a cash basis over the period in which the service is provided. Fees are a function of the market value of assets managed and administered, the volume of transactions, and fees for other services rendered, as set forth in the underlying client agreement with the Trust & Wealth Management Division of First Mid Bank. This revenue recognition involves the use of estimates and assumptions, including components that are calculated based on asset valuations and transaction volumes. Any out of pocket expenses or services not typically covered by the fee schedule for trust activities are charged directly to the trust account on a gross basis as trust revenue is incurred.
At December 31, 2010, the Company managed or administered 1,131 accounts with assets totaling approximately $507,530,000. At December 31, 2009, the Company managed or administered 1,117 accounts with assets totaling approximately $459,149,000.

Preferred Stock

Series B Convertible Preferred Stock. During 2009, the Company sold to certain accredited investors including directors, executive officers, and certain major customers and holders of the Company’s common stock, $24,635,000, in the aggregate, of a newly authorized series of its preferred stock designated as Series B 9% Non-Cumulative Perpetual Convertible Preferred Stock (the “Series B Preferred Stock”). The Series B Preferred Stock had an issue price of $5,000 per share and no par value per share. The Series B Preferred Stock was issued in a private placement exempt from registration pursuant to Regulation D of the Securities Act of 1933, as amended.

The Series B Preferred Stock pays non-cumulative dividends semiannually in arrears, when, as and if authorized by the Board of Directors of the Company, at a rate of 9% per year. Holders of the Series B Preferred Stock will have no voting rights, except with respect to certain fundamental changes in the terms of the Series B Preferred Stock and certain other matters. In addition, if dividends on the Series B Preferred Stock are not paid in full for four dividend periods, whether consecutive or not, the holders of the Series B Preferred Stock, acting as a class with any other of the Company’s securities having similar voting rights, will have the right to elect two directors to the Company’s Board of Directors. The terms of office of these directors will end when the Company has paid or set aside for payment full semi-annual dividends for four consecutive dividend periods.

Each share of the Series B Preferred Stock may be converted at any time at the option of the holder into shares of the Company’s common stock. The number of shares of common stock into which each share of the Series B Preferred Stock is convertible is the $5,000 liquidation preference per share divided by the Conversion Price of $21.94. The Conversion Price is subject to adjustment from time to time pursuant to the terms of the Certificate of Designation (the “Series B Certificate of Designation”). If at the time of conversion, there are any authorized, declared and unpaid dividends with respect to a converted share of Series B Preferred Stock, the holder will receive cash in lieu of the dividends, and a holder will receive cash in lieu of fractional shares of common stock following conversion.

After five years, the Company may, at its option but subject to the Company's receipt of any required prior approvals from the Board of Governors of the Federal Reserve System or any other regulatory authority, redeem the Series B Preferred Stock. Any redemption will be in exchange for cash in the amount of $5,000 per share, plus any authorized, declared and unpaid dividends, without accumulation of any undeclared dividends.

The Company also has the right at any time on or after the fifth anniversary of the original issuance date of the Series B Preferred Stock to require the conversion of all (but not less than all) of the Series B Preferred Stock into shares of common stock if, on the date notice of mandatory conversion is given to holders, the book value of the Company's common stock equals or exceeds 115% of the book value of the Company's common stock at September 30, 2008. "Book value of the Company's common stock" at any date means the result of dividing the Company's total common stockholders' equity at that date, determined in accordance with U.S. generally accepted accounting principles, by the number of shares of common stock then outstanding, net of any shares held in the treasury. The book value of the Company's common stock at September 30, 2008 was $13.03, and 115% of this amount is approximately $14.98. The book value of the Company's common stock at December 31, 2010 was $14.46.

Pursuant to Section 3(j) of the Series B Certification of Designation, the conversion price for the Series B Preferred Stock, which was initially set at $21.94, was required to be adjusted if, among other things, the initial conversion price of any subsequently issued series of preferred stock was lower than the then current conversion price of the Series B Preferred Stock. As a result of the Series C Preferred Stock (see below) having an initial conversion price of less than $21.94, the conversion price of the Series B Preferred Stock was adjusted pursuant to the terms of the Series B Certificate of Designation based on the amount of Series C Preferred Stock sold on February 11, 2011. The new conversion price of the Series B Preferred Stock, certified by the Company's accountant pursuant to Section 3(j) of the Series B Certificate of Designation, is $21.80. If additional Series C Preferred Stock is sold following an Investor's receipt of applicable bank regulatory approval, subsequent adjustments will be made to the conversion price of the Series B Preferred Stock

Series C Convertible Preferred Stock. On February 11, 2011, the Company accepted from certain accredited investors, including directors, executive officers, and certain major customers and holders of the Company's common stock (collectively, the "Investors"), subscriptions for the purchase of $27,500,000, in the aggregate, of a newly authorized series of preferred stock designated as Series C 8% Non-Cumulative Perpetual Convertible Preferred Stock (the "Series C Preferred Stock"). As of February 11, 2011, $11,010,000 of the Series C Preferred Stock had been issued and sold by the Company to certain Investors. The balance of the Series C Preferred Stock will be issued to the remaining Investors upon the completion of the bank regulatory process applicable to their purchases. Subsequently on March 2, 2011, three investors received the appropriate bank regulatory approval and an additional $2,750,000 of Series C Preferred Stock was issued and sold by the Company to these investors.

The Series C Preferred Stock has an issue price of $5,000 per share and no par value per share. The Series C Preferred Stock was issued in a private placement exempt from registration pursuant to Regulation D of the Securities Act of 1933, as amended.

The Series C Preferred Stock pays non-cumulative dividends semiannually in arrears, when, as and if authorized by the Board of Directors of the Company, at a rate of 8% per year. Holders of the Series C Preferred Stock will have no voting rights, except with respect to certain fundamental changes in the terms of the Series C Preferred Stock and certain other matters. In addition, if dividends on the Series C Preferred Stock are not paid in full for four dividend periods, whether consecutive or not, the holders of the Series C Preferred Stock, acting as a class with any other of the Company's securities having similar voting rights, including the Company's Series B Preferred Stock, will have the right to elect two directors to the Company's Board of Directors. The terms of office of these directors will end when the Company has paid or set aside for payment full semi-annual dividends for four consecutive dividend periods.

Each share of the Series C Preferred Stock may be converted at any time at the option of the holder into shares of the Company's common stock. The number of shares of common stock into which each share of the Series C Preferred Stock is convertible is the $5,000 liquidation preference per share divided by the Conversion Price of $20.29. The Conversion Price is subject to adjustment from time to time pursuant to the terms of the Series C Certificate of Designation. If at the time of conversion, there are any authorized, declared and unpaid dividends with respect to a converted share of Series C Preferred Stock, the holder will receive cash in lieu of the dividends, and a holder will receive cash in lieu of fractional shares of common stock following conversion.

After the fifth anniversary of the original issuance date of the shares of the Series C Preferred Stock constituting a majority of the shares issued, the Company may, at its option but subject to the Company's receipt of any required prior approvals from the Board of Governors of the Federal Reserve System or any other regulatory authority, redeem the Series C Preferred Stock. Any redemption will be in exchange for cash in the amount of $5,000 per share, plus any authorized, declared and unpaid dividends, without accumulation of any undeclared dividends.

The Company also has the right at any time after the fifth anniversary of the original issuance date of the shares of the Series C Preferred Stock constituting a majority of the shares issued to require the conversion of all (but not less than all) of the Series C Preferred Stock into shares of common stock if, on the date notice of mandatory conversion is given to holders, (a) the tangible book value per share of the Company's common stock equals or exceeds 115% of the tangible book value per share of the Company's common stock at December 31, 2010, and (b) the NASDAQ Bank Index (denoted by CBNK:IND) equals or exceeds 115% of the NASDAQ Bank Index at December 31, 2010. "Tangible book value per share of our common stock" at any date means the result of dividing the Company's total common stockholders equity at that date, less the amount of goodwill and intangible assets, determined in accordance with U.S. generally accepted accounting principles, by the number of shares of common stock then outstanding, net of any shares held in the treasury. The tangible book value of the Company's common stock at December 31, 2010 was $9.38, and 115% of this amount is approximately $10.79. The NASDAQ Bank Index value at December 31, 2010 was 1,847.35 and 115% of this amount is approximately 2,124.45.

Treasury Stock

Treasury stock is stated at cost. Cost is determined by the first-in, first-out method.

Stock Options

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R, Accounting for Stock-Based Compensation," which was codified into ASC 718, using the modified prospective application method. Accordingly, after January 1, 2006, the Company began expensing the fair value of stock options granted, modified, repurchased or cancelled. Additionally, compensation cost for a portion of the awards for which requisite services had not yet been rendered that were outstanding as of January 1, 2006 are being recognized as the requisite service is rendered. As a result of this adoption, the Company's income before income taxes and net income for the year ended December 31, 2010 includes stock option compensation cost of $52,000 and $51,000, respectively, which represents $.01 impact on basic and diluted earnings per share for the year. The Company's income before income taxes and net income for the year ended December 31, 2009 includes stock option compensation cost of $53,000 and $52,000, respectively, which represents $.01 impact on basic and diluted earnings per share for the year. The Company's income before income taxes and net income for the year ended December 31, 2008 includes stock option compensation cost of $58,000 and $57,000, respectively, which represents $.01 impact on basic and diluted earnings per share for the year.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized appreciation (depreciation) on available-for-sale securities and unrealized appreciation (depreciation) on available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in income.

The Company's comprehensive income for the years ended December 31, 2010, 2009 and 2008 is as follows:

	2010	2009	2008
Net income	$8,761	$8,214	$10,524
Other comprehensive income:			
Unrealized gains (losses) on securities available-for-sale	(2,193)	2,732	(2,184)
Non-credit component of unrealized losses on securities available-for-sale for which a portion of an other-than-temporary impairment has been recognized in income	(2,829)	(2,465)	-
Other-than-temporary impairment losses recognized in earnings	1,418	1,812	-
Reclassification adjustment for realized gains included in income	(543)	(637)	(293)
Other comprehensive income (loss) before taxes	(4,147)	1,442	(2,477)
Tax benefit (expense)	1,617	(562)	965
Total other comprehensive income (loss)	(2,530)	880	(1,512)
Comprehensive income	$6,231	$9,094	$9,012

The components of accumulated other comprehensive income (loss) included in stockholders' equity are as follows:

December 31, 2010	Unrealized Gain (Loss) on Available for Sale Securities	Other-Than-Temporary Impairment Losses	Total
Net unrealized gains on securities available-for-sale	$2,629	$ -	$2,629
Other-than-temporary impairment losses on securities	-	(6,014)	(6,014)
Tax benefit (expense)	(1,025)	2,344	1,319
Balance at December 31, 2010	$1,604	$ (3,670)	$(2,066)
December 31, 2009			
Net unrealized gains on securities available-for-sale	$5,364	$ -	$5,364
Other-than-temporary impairment losses on securities	-	(4,603)	(4,603)
Tax benefit (expense)	(2,091)	1,794	(297)
Balance at December 31, 2009	$3,273	$ (2,809)	$464

See Note 4 – "Investment Securities" for more detailed information regarding unrealized losses on available-for-sale securities.

Note 2 – Earnings Per Common Share

Basic earnings per common share ("EPS") is calculated as net income available to common shareholders divided by the weighted average number of common shares outstanding. Diluted EPS is computed using the weighted average number of common shares outstanding, increased by the assumed conversion of the Company's stock options, unless anti-dilutive.

The components of basic and diluted earnings per common share for the years ended December 31, 2010, 2009 and 2008 are as follows:

	2010	2009	2008
Basic Earnings per Common Share:			
Net income	$8,761,000	$8,214,000	$10,524,000
Preferred stock dividends	(2,240,000)	(1,821,000)	-
Net income available to common stockholders	$6,521,000	$6,393,000	$10,524,000
Weighted average common shares outstanding	6,092,670	6,131,314	6,231,438
Basic earnings per common share	$1.07	$1.04	$1.69

	2010	2009	2008
Diluted Earnings per Common Share:			
Net income available to common stockholders	$6,521,000	$6,393,000	$10,524,000
Effect of assumed preferred stock conversion	-	-	-
Net income applicable to diluted earnings per share	$6,521,000	$6,393,000	$10,524,000
Weighted average common shares outstanding	6,092,670	6,131,314	6,231,438
Dilutive potential common shares:			
Assumed conversion of stock options	24,057	35,879	75,976
Assumed conversion of preferred stock	-	-	-
Diluted weighted average common shares outstanding	6,116,727	6,167,193	6,307,414
Diluted earnings per common share	$1.07	$1.04	$1.67

The following shares were not considered in computing diluted earnings per share for the years ended December 31, 2010, 2009 and 2008 because they were anti-dilutive:

	2010	2009	2008
Stock options to purchase shares of common stock	$202,970	$202,970	$124,813
Average dilutive potential common shares associated with convertible preferred stock	$1,122,833	$1,036,046	--

Note 3 – Cash and Due from Banks

Aggregate cash and due from bank balances of $318,000, $686,000 and $808,000 were maintained in satisfaction of statutory reserve requirements of the Federal Reserve Bank at December 31, 2010, 2009 and 2008, respectively.

Note 4 – Investment Securities

The amortized cost, gross unrealized gains and losses and estimated fair values of available-for-sale and held-to-maturity securities by major security type at December 31, 2010 and 2009 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2010				
Available-for-sale:				
U.S. Treasury securities and obligations of U.S. government corporations and Agencies	$152,086	$1,319	$(1,024)	$152,381
Obligations of states and political subdivisions	26,549	591	(226)	26,914
Mortgage-backed securities: Government Sponsored Enterprise (GSE)-Residential	158,936	3,477	(1,482)	160,931
Trust preferred securities	6,595	-	(6,014)	581
Other securities	2,035	-	(26)	2,009
Total available-for-sale	$346,201	$5,387	$(8,772)	$342,816
Held-to-maturity:				
Obligations of states and political subdivisions	$50	$3	$-	$53

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2009				
Available-for-sale:				
U.S. Treasury securities and obligations of U.S.				
government corporations and Agencies	$89,640	$1,386	$(52)	$90,974
Obligations of states and political subdivisions	23,071	742	(97)	23,716
Mortgage-backed securities: GSE-Residential	111,301	3,343	(125)	114,519
Trust preferred securities	7,758	-	(4,603)	3,155
Other securities	6,166	187	(20)	6,333
Total available-for-sale	$237,936	$5,658	$(4,897)	$238,697
Held-to-maturity:				
Obligations of states and political subdivisions	$459	$10	$-	$469

The trust preferred securities are four trust preferred pooled securities issued by FTN Financial Securities Corp. ("FTN"). The unrealized losses of these securities, which have maturities ranging from nineteen years to twenty seven years, is primarily due to their long-term nature, a lack of demand or inactive market for these securities, and concerns regarding the underlying financial institutions that have issued the trust preferred securities. See the heading "Trust Preferred Securities" below for further information regarding these securities. Except as discussed below, management believes the declines in fair value for these securities are temporary.

Proceeds from sales of investment securities, realized gains and losses and income tax expense and benefit were as follows during the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Proceeds from sales	$10,936	$38,275	$2,322
Gross gains	543	637	293
Gross losses	-	-	-
Income tax expense	190	223	103

The following table indicates the expected maturities of investment securities classified as available-for-sale and held-to-maturity, presented at amortized cost, at December 31, 2010 (dollars in thousands) and the weighted average yield for each range of maturities. Mortgage-backed securities are aged according to their weighted average life. All other securities are shown at their contractual maturity.

	One year or less	After 1 through 5 years	After 5 through 10 years	After 10 years	Total
Available-for-sale:					
U.S. Treasury securities and obligations of U.S.					
government corporations and agencies	$110,224	$38,582	$3,280	$-	$152,086
Obligations of state and political subdivisions	772	8,624	16,808	345	26,549
	2,252	101,121	55,563	-	158,936

Mortgage-backed securities: GSE residential										
Trust preferred securities	-		-		-		6,595		6,595	
Other securities	-		2,000		-		35		2,035	
Total investments	$113,248		$150,327		$75,651		$6,975		$346,201	
Weighted average yield	1.74	%	3.55	%	3.46	%	3.77	%	2.94	%
Full tax-equivalent yield	1.74	%	3.67	%	3.89	%	3.88	%	3.09	%
Held-to-maturity:										
Obligations of state and political subdivisions	$-		$50		$-		$-		$50	
Weighted average yield	-	%	4.75	%	-	%	-	%	4.75	%
Full tax-equivalent yield	-	%	6.58	%	-	%	-	%	6.58	%

The weighted average yields are calculated on the basis of the amortized cost and effective yields weighted for the scheduled maturity of each security. Full tax-equivalent yields have been calculated using a 34% tax rate. With the exception of obligations of the U.S. Treasury and other U.S. government agencies and corporations, there were no investment securities of any single issuer the book value of which exceeded 10% of stockholders' equity at December 31, 2010.

Investment securities carried at approximately $240,838,000 and $185,357,000 at December 31, 2010 and 2009, respectively, were pledged to secure public deposits and repurchase agreements and for other purposes as permitted or required by law.

The following table presents the aging of gross unrealized losses and fair value by investment category as of December 31, 2010 and 2009:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2010:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$58,782	$(1,024)	$-	$-	$58,782	$(1,024)
Obligations of states and political subdivisions	7,263	(216)	252	(10)	7,515	(226)
Mortgage-backed securities: GSE residential	62,171	(1,482)	-	-	62,171	(1,482)
Trust preferred securities	-	-	581	(6,014)	581	(6,014)
Corporate bonds	2,009	(26)	-	-	2,009	(26)
Total	$130,225	$(2,748)	$833	$(6,024)	$131,058	$(8,772)
December 31, 2009:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$90,974	$(52)	$-	$-	$90,974	$(52)
Obligations of states and political subdivisions	23,015	(40)	1,170	(57)	24,185	(97)
Mortgage-backed securities: GSE residential	114,431	(124)	88	(1)	114,519	(125)
Trust preferred securities	-	-	3,155	(4,603)	3,155	(4,603)
Corporate bonds	6,318	-	15	(20)	6,333	(20)
Total	$234,738	$(216)	$4,428	$(4,681)	$239,166	$(4,897)

U.S. Treasury Securities and Obligations of U.S. Government Corporations and Agencies

At December 31, 2010 and 2009, there were no U.S. Treasury securities and obligations of U.S. government corporations and agencies in a continuous unrealized loss position for twelve months or more. The unrealized losses on the Company's investments in U.S. Treasury securities and obligations of U.S. corporations and agencies were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell these investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2010.

Obligations of states and political subdivisions

At December 31, 2010, there was one obligation of states and political subdivisions issued by a municipality with a fair value of $252,000 and unrealized losses of $10,000 in a continuous unrealized loss position for twelve months or more. At December 31, 2009, there were four obligations of states and political subdivisions issued by two municipalities with a fair value of $1,170,000 and unrealized losses of $57,000 in a continuous unrealized loss position for twelve months or more. This position was due to municipal rates increasing since the purchase of the securities resulting in the market value being lower than book value. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell these securities and it is not more-likely-than-not the Company will be required to sell these securities, before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other than temporarily impaired at December 31, 2010.

Mortgage-backed Securities: GSE Residential

At December 31, 2010, there were no mortgage-backed securities issued by Federal Home Loan Mortgage Corporation in a continuous unrealized loss position for twelve months or more. At December 31, 2009, there was one mortgage-backed security issued by Federal Home Loan Mortgage Corporation with a fair value of $88,000 and unrealized losses of $583 in a continuous unrealized loss position for twelve months or more. This position was due to intermediate rates increasing since the purchase of these securities resulting in the market value of the security being lower than book value.

Trust Preferred Securities

At December 31, 2010, there were four trust preferred securities with a fair value of $581,000 and unrealized losses of $6,014,000 in a continuous unrealized loss position for twelve months or more. At December 31, 2009, there were four trust preferred securities with a fair value of $3,155,000 and unrealized losses of $4,603,000 in a continuous unrealized loss position for twelve months or more. These unrealized losses were primarily due to the long-term nature of the trust preferred securities, a lack of demand or inactive market for these securities, and concerns regarding the underlying financial institutions that have issued the trust preferred securities. The Company recorded a total of $1,418,000 and $1,812,000 of OTTI for these securities during 2010 and 2009, respectively. These losses established a new, lower amortized cost basis for these securities and reduced non-interest income as of December 31, 2010 and 2009. Because the Company does not intend to sell these securities and it is not more-likely-than-not that the Company will be required to sell these securities before recovery of their new, lower amortized cost basis, which may be maturity, the Company does not consider the remainder of the investment in these securities to be other-than-temporarily impaired at December 31, 2010. However, future downgrades or additional deferrals and defaults in these securities, in particular PreTSL XXVIII, could result in additional OTTI and consequently, have a material impact on future earnings.

Following are the details for each trust preferred security (in thousands):

	Book Value (Amortized Cost)	Market Value	Unrealized Loss	Other-than-temporary Impairment Recorded
PreTSL I	$829	$227	$(602)	$691
PreTSL II	1,143	137	(1,006)	2,071
PreTSL VI	201	81	(120)	127
PreTSL XXVIII	4,422	136	(4,286)	341
Total	$6,595	$581	$(6,014)	$3,230

Other securities

At December 31, 2010, there were no corporate bonds in a continuous unrealized loss position for twelve months or more. At December 31, 2009, there was one corporate bond with a fair value of $15,000 and unrealized losses of $20,000 in a continuous unrealized loss position for twelve months or more. The long-term nature of this security has led to increased supply, while demand has decreased, leading to devaluation of the security. Management has evaluated this security and believes the decline in market value is liquidity, and not credit, related.

The Company does not believe any other individual unrealized loss as of December 31, 2010 represents OTTI. However, given the continued disruption in the financial markets, the Company may be required to recognize OTTI losses in future periods with respect to its available for sale investment securities portfolio. The amount and timing of any additional OTTI will depend on the decline in the underlying cash flows of the securities. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in the period the other-than-temporary impairment is identified.

Other-than-temporary Impairment

Upon acquisition of a security, the Company decides whether it is within the scope of the accounting guidance for beneficial interests in securitized financial assets or will be evaluated for impairment under the accounting guidance for investments in debt and equity securities.

The accounting guidance for beneficial interests in securitized financial assets provides incremental impairment guidance for a subset of the debt securities within the scope of the guidance for investments in debt and equity securities. For securities where the security is a beneficial interest in securitized financial assets, the Company uses the beneficial interests in securitized financial asset impairment model. For securities where the security is not a beneficial interest in securitized financial assets, the Company uses debt and equity securities impairment model.

The Company routinely conducts periodic reviews to identify and evaluate each investment security to determine whether OTTI has occurred. Economic models are used to determine whether OTTI has occurred on these securities. While all securities are considered, the securities primarily impacted by OTTI testing are pooled trust preferred securities. For each pooled trust preferred security in the investment portfolio (including but not limited to those whose fair value is less than their amortized cost basis), an extensive, regular review is conducted to determine if OTTI has occurred. Various inputs to the economic models are sued to determine if an unrealized loss is other-than-temporary. The most significant inputs are the following:

- Prepayments
- Defaults
- Loss severity

The pooled trust preferred securities relate to trust preferred securities issued by financial institutions. The pools typically consist of financial institutions throughout the United States. Other inputs may include the actual collateral attributes, which include credit ratings and other performance indicators of the underlying financial institutions including profitability, capital ratios, and asset quality.

To determine if the unrealized losses for pooled trust preferred securities is other-than-temporary, the Company considers the impact of each of these inputs. The Company considers the likelihood that issuers will prepay their securities. During the third quarter of 2010, the Dodd-Frank Act eliminated Tier 1 capital treatment for trust preferred securities issued by holding companies with consolidated assets greater than $15 billon. As a result, issuers may prepay their securities which reduces the amount of expected cash flows. Additionally, the Company projects total estimated defaults of the underlying assets (financial institutions) and multiplies that calculated amount by an estimate of realizable value upon sale in the marketplace (severity) in order to determine the projected collateral loss. The Company also evaluates the current credit enhancement underlying the security to determine the impact on cash flows. If the Company determines that a given pooled trust preferred security position will be subject to a write-down or loss, the Company records the expected credit loss as a charge to earnings.

Credit Losses Recognized on Investments

As described above, some of the Company's investments in trust preferred securities have experienced fair value deterioration due to credit losses but are not otherwise other-than-temporarily impaired. The following table provides information about those trust preferred securities for which only a credit loss was recognized in income and other losses are recorded in other comprehensive income (loss) for the years ended December 31, 2010 and 2009 (in thousands). There were no credit losses recorded in income for the year ended December 31, 2008.

	Accumulated Credit Losses December 31, 2010	Accumulated Credit Losses December 31, 2009
Credit losses on trust preferred securities held		
Beginning of year	$ 1,812	$ -
Additions related to OTTI losses not previously recognized	-	1,812
Reductions due to sales	-	-
Reductions due to change in intent or likelihood of sale	-	-
Additions related to increases in previously recognized OTTI losses	1,418	-
End of year	$ 3,230	$ 1,812

Maturities of investment securities were as follows at December 31, 2010 (in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Available-for-sale:		
Due in one year or less	$110,996	$110,263
Due after one-five years	49,206	50,120
Due after five-ten years	20,088	20,550

Due after ten years	6,975	952
	187,265	181,885
Mortgage-backed securities: GSE residential	158,936	160,931
Total available-for-sale	346,201	342,816
Held-to-maturity:		
Due in one year or less	-	-
Due after one-five years	50	53
Due after five-ten years	-	-
Due after ten-years	-	-
Total held-to-maturity	50	53
Total investment securities	$346,251	$342,869

Note 5 – Loans

A summary of loans at December 31, 2010 and 2009 follows (in thousands):

	2010	2009
Construction and land development	$20,382	$28,041
Farm loans	65,036	62,316
1-4 Family residential properties	179,535	180,367
Multifamily residential properties	22,159	19,467
Commercial real estate	302,220	226,362
Loans secured by real estate	589,332	516,553
Agricultural loans	58,246	54,089
Commercial and industrial loans	126,391	105,303
Consumer loans	19,668	20,825
All other loans	12,464	3,787
Gross loans	806,101	700,557
Less:		
Net deferred loan fees, premiums and discounts	1,520	(193)
Allowance for loan losses	10,393	9,462
Net loans	$794,188	$691,288

The 1-4 family residential properties balance in the above table includes loans held for sale of $114,000 and $149,000 at December 31, 2010 and 2009, respectively. The following table presents the Company's loan portfolio aging analysis as of December 31, 2010 and 2009 (in thousands):

December 31, 2010	30-59 days Past Due	60-89 days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 days & Accruing
Construction and land development	$5	$-	$150	$155	$20,224	$20,379	$-
Farm loans	5	0	761	766	64,226	64,992	-
1-4 Family residential properties	819	201	1,624	2,644	176,883	179,527	-
Multifamily residential properties	-	573	-	573	21,573	22,146	-
Commercial real estate	1,535	1,075	727	3,337	297,488	300,825	-
Loans secured by real estate	2,364	1,849	3,262	7,475	580,394	587,869	-
Agricultural loans	125	-	828	953	57,354	58,307	-
Commercial and industrial loans	473	64	259	796	125,523	126,319	-
Consumer loans	177	32	15	224	19,431	19,655	-
All other loans	-	-	-	-	12,431	12,431	-
Total loans	$3,139	$1,945	$4,364	$9,448	$795,133	$804,581	$-

December 31, 2009							
Construction and land development	$18	$499	$1,893	$2,410	$25,631	$28,041	$-
Farm loans	7	166	1,408	1,581	60,749	62,330	-
1-4 Family residential properties	759	312	1,342	2,413	178,002	180,415	-
Multifamily residential properties	-	-	292	292	19,175	19,467	-
Commercial real estate	98	2,439	4,714	7,251	219,149	226,400	-
Loans secured by real estate	882	3,416	9,649	13,947	502,706	516,653	-
Agricultural loans	68	-	-	68	54,076	54,144	-
Commercial and industrial loans	333	313	202	848	104,503	105,351	-
Consumer loans	168	26	-	194	20,621	20,815	-
All other loans	-	-	-	-	3,787	3,787	-
Total loans	$1,451	$3,755	$9,851	$15,057	$685,693	$700,750	$-

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, collateral support, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans with an outstanding balance greater than $100,000 and non-homogenous loans, such as commercial and commercial real estate loans. This analysis is performed on a continuous basis. The Company uses the following definitions for risk ratings:

Watch. Loans classified as watch have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing factors, conditions and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered pass rated loans.

The following tables present the credit risk profile of the Company's loan portfolio based on rating category and payment activity as of December 31, 2010 and 2009 (in thousands):

	Construction & Land Development		Farm Loans		1-4 Family Residential Properties		Multifamily Residential Properties	
	2010	2009	2010	2009	2010	2009	2010	2009
Pass	$15,778	$20,122	$58,751	$55,663	$174,782	$172,473	$10,381	$18,980
Watch	2,219	4,206	4,710	4,040	267	1,052	6,204	-
Substandard	1,494	3,713	1,531	2,627	4,478	6,890	5,561	487
Doubtful	888	-	-	-	-	-	-	-
Total	$20,379	$28,041	$64,992	$62,330	$179,527	$180,415	$22,146	$19,467

	Commercial Real Estate (Nonfarm/Nonresidential)		Agricultural Loans		Commercial & Industrial Loans		Consumer Loans	
	2010	2009	2010	2009	2010	2009	2010	2009
Pass	$ 276,174	$ 188,857	$53,293	$51,977	$120,284	$98,296	$19,655	$20,809
Watch	14,598	17,195	3,269	1,677	2,519	2,919	-	3
Substandard	10,053	19,348	1,745	490	3,516	4,136	-	3
Doubtful	-	-	-	-	-	-	-	-
Total	$ 300,825	$ 226,400	$58,307	$54,144	$126,319	$105,351	$19,655	$20,815

	All Other Loans		Total Loans	
	2010	2009	2010	2009
Pass	$12,431	$3,787	$741,529	$631,964
Watch	-	-	33,786	31,092
Substandard	-	-	28,378	37,694
Doubtful	-	-	888	-
Total	$12,431	$3,787	$804,581	$700,750

A loan is considered impaired, in accordance with the impairment guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans but also include loans modified in trouble debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

The following tables present impaired loans for the years ended December 31, 2010 and 2009 (in thousands):

	2010				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Construction and land development	$1,955	$1,955	$459	$1,975	$ 20
Farm loans	540	540	-	1,317	332
1-4 Family residential properties	2,565	2,595	296	2,720	144
Multifamily residential properties	573	669	69	670	-
Commercial real estate	3,036	4,215	80	4,425	167
Loans secured by real estate	8,669	9,974	904	11,107	663
Agricultural loans	828	828	-	993	-
Commercial and industrial loans	923	1,035	182	1,165	24
Consumer loans	14	14	-	17	-
All other loans	-	-	-	-	-
Total loans	$10,434	$11,851	$1,086	$13,282	$ 687

	2009				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Construction and land development	$2,064	$2,064	$14	$2,112	$ 48
Farm loans	1,355	1,355	-	1,408	52
1-4 Family residential properties	1,968	6,233	91	2,186	111
Multifamily residential properties	487	487	59	563	74
Commercial real estate	6,063	6,829	399	7,027	133
Loans secured by real estate	11,937	16,968	563	13,296	418
Agricultural loans	-	-	-	-	-
Commercial and industrial loans	783	962	-	1,169	28
Consumer loans	-	-	-	-	-
All other loans	-	-	-	-	-
Total loans	$12,720	$17,930	$563	$14,465	$ 446

The following table presents the Company’s nonaccrual loans at December 31, 2010 and 2009 (in thousands). This table excludes purchased impaired loans and performing troubled debt restructurings.

	2010	2009
Construction and land development	$1,955	$2,064
Farm loans	540	1,355
1-4 Family residential properties	2,565	1,968
Multifamily residential properties	573	487
Commercial real estate	2,149	6,063
Loans secured by real estate	7,782	11,937
Agricultural loans	828	-

Commercial and industrial loans	708	783
Consumer loans	14	-
All other loans	-	-
Total loans	$9,332	$12,720

The aggregate principal balances of nonaccrual, past due ninety days or more loans were $9,332,000 and $12,720,000 at December 31, 2010 and 2009, respectively. Interest income which would have been recorded under the original terms of such nonaccrual loans totaled $428,000, $672,000 and $274,000 in 2010, 2009 and 2008, respectively.

Most of the Company's business activities are with customers located within central Illinois. At December 31, 2010, the Company's loan portfolio included $123.3 million of loans to borrowers whose businesses are directly related to agriculture. Of this amount, $108.1 million was concentrated in other grain farming. Total loans to borrowers whose businesses are directly related to agriculture increased $6.8 million from $116.5 million at December 31, 2009 while loans concentrated in other grain farming increased $5.6 million from $102.5 million at December 31, 2009. While the Company adheres to sound underwriting practices, including collateralization of loans, any extended period of low commodity prices, significantly reduced yields on crops and/or reduced levels of government assistance to the agricultural industry could result in an increase in the level of problem agriculture loans and potentially result in loan losses within the agricultural portfolio.

In addition, the Company has $49.7 million of loans to motels and hotels. The performance of these loans is dependent on borrower specific issues as well as the general level of business and personal travel within the region. While the Company adheres to sound underwriting standards, a prolonged period of reduced business or personal travel could result in an increase in nonperforming loans to this business segment and potentially in loan losses. The Company also has $87.2 million of loans to lessors of non-residential buildings and $49.5 million of loans to lessors of residential buildings and dwellings.

Note 6 – Allowance for Loan Losses

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2010 and 2009 (in thousands):

	2010					
	Commercial/ Commercial Real Estate	Agricultural/ Agricultural Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:						
Balance, beginning of year	$7,428	$ 315	$ 488	$410	$821	$9,462
Provision charged to expense	3,473	89	(118)	264	29	3,737
Losses charged off	(2,770)	(3)	(65)	(284)	-	(3,122)
Recoveries	176	3	135	2	-	316
Balance, end of year	$8,307	$ 404	$ 440	$392	$850	$10,393
Ending balance:						
Individually evaluated for impairment	$1,086	$ -	$ -	$-	$-	$1,086
Collectively evaluated for impairment	$7,221	$ 404	$ 440	$392	$850	$9,307
Loans acquired with deteriorated credit quality	$-	$ -	$ -	$-	$-	$-
Loans:						
Ending balance	$465,390	$ 118,973	$ 183,000	$20,486	$16,732	$804,581

Ending balance:						
Individually evaluated for impairment	$7,332	$ 1,152	$ -	$-	$-	$8,484
Collectively evaluated for impairment	$358,421	$ 111,304	$ 164,065	$19,675	$142,632	$796,097
Loans acquired with deteriorated credit quality	$-	$ -	$ -	$-	$-	$-

	2009					
	Commercial/ Commercial Real Estate	Agricultural/ Agricultural Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:						
Balance, beginning of year	$5,345	$ 223	$ 510	$436	$1,073	$7,587
Provision charged to expense	3,315	89	202	240	(252)	3,594
Losses charged off	(1,256)	-	(352)	(271)	-	(1,879)
Recoveries	24	3	128	5	-	160
Balance, end of year	$7,428	$ 315	$ 488	$410	$821	$9,462
Ending balance:						
Individually evaluated for impairment	$563	$ -	$ -	$-	$-	$563
Collectively evaluated for impairment	$6,865	$ 315	$ 488	$410	$821	$8,899
Loans acquired with deteriorated credit quality	$-	$ -	$ -	$-	$-	$-
Loans:						
Ending balance	$376,170	$ 111,845	$ 180,404	$21,518	$10,813	$700,750
Ending balance:						
Individually evaluated for impairment	$9,509	$ 1,356	$ -	$-	$-	$10,865
Collectively evaluated for impairment	$366,661	$ 110,489	$ 180,404	$21,518	$10,813	$689,885
Loans acquired with deteriorated credit quality	$-	$ -	$ -	$-	$-	$-

During the year ended December 31, 2008, changes in the allowance for loan losses were as follows:

Balance, beginning of year	$6,118
Provision for loan losses	3,559
Charge-offs	(2,422)
Recoveries	332
Balance, end of year	$7,587

Note 7 – Premises and Equipment, Net

Premises and equipment at December 31, 2010 and 2009 consisted of:

	2010	2009
Land	$5,533	$3,569
Buildings and improvements	26,174	17,347

Furniture and equipment	14,707	13,223
Leasehold improvements	3,005	1,341
Construction in progress	10	-
Subtotal	49,429	35,480
Accumulated depreciation and amortization	20,885	19,993
Total	$28,544	$15,487

Depreciation and amortization expense was $1,829,000, $1,538,000 and $1,617,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

Note 8 – Goodwill and Intangible Assets

The Company has goodwill from business combinations, intangible assets from branch acquisitions, identifiable intangible assets assigned to core deposit relationships and customer lists of insurance agencies acquired. The following table presents gross carrying amount and accumulated amortization by major intangible asset class as of December 31, 2010 and 2009:

	2010	2009	&#16